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THE

# BANK OF ENGLAND

AND THE

# ORGANISATION OF CREDIT

# IN ENGLAND.

26937

"THE WELFARE OF THE PEOPLE IS THE HIGHEST LAW."

LONDON:
LONGMAN, GREEN, LONGMAN, ROBERTS, & GREEN.
1865.

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# NOTE FROM THE AUTHOR.

THE outline of this work was written in the year 1858, and was then laid aside, as, at that time, the Bank Act did not appear to receive the attention which a subject of such importance deserved from the Public.

The pamphlet of M. Pereire, published in Paris, in December, 1864, entitled, "La Banque de France, et l'Organisation du Crédit en France," having revived some attention to the subject, and as the whole question of the Bank Charter Act of 1844 will, probably, be brought before a new Parliament next year, I have been in-

duced to fill up and complete my original outline, with additions, showing wherein I differ with M. Pereire in some of his reasoning and conclusions; though, in the main principle we agree. But it should be borne in mind that, his object is the establishment of another Bank of France, or another Financial Association, on new and enlarged principles, with the view of forcing the existing Bank of France to adopt those principles.

It is, therefore, not quite a fair test of M. Pereire's arguments to try them as applicable to the Bank of England; nor would the proof that they are inapplicable to the Bank of England be conclusive against his object, which is to enlarge the sphere of usefulness of the Bank of France, the constitution of the two Banks being, in some respects, essentially different.

But the main principle seems to be applicable to the National Banks of both countries.

I have, therefore, assimilated the title of my book to that of M. Pereire's *brochure*, as being well chosen for the object, and it is satisfactory

to me to find that, on the question of making the Bank of England a means for the Organisation of Credit in England, I am confirmed in my opinion by so eminent an authority as M. Pereire.

But, as "Historicus" has said, in one of his recent Letters in the "*Times*:"—"It is a lamentable but certain fact that, the hardest and best work that is done in the world is often that which is least appreciated."

Being quite of that way of thinking, I am prepared to expect that my views and opinions will meet with much opposition from a large class of Capitalists and Financiers; and, after all care, much may be left open to just criticism.

My only object being to see our National Bank and Credit placed on a safe basis, and conducted on sound and intelligible principles, I am desirous of correcting my own views on the subject by the opinions of the most eminent and practical men in all countries; and, for this object, I should give my best attention to any

remarks with which they may favor me, through my Publishers.

But, however imperfectly the principles here laid down may be explained, and however feebly supported, I have a very strong conviction that, sooner or later, these principles will be carried out by the Bank of England, and also by the Bank of France.

Under such conviction, this work is submitted to the judgment of the Public, by a Friend of the People, and

THE AUTHOR OF
"THE PEOPLE'S BLUE BOOK."

*London, 1st July*, 1865.

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# THE BANK OF ENGLAND

AND

# THE ORGANISATION OF CREDIT IN ENGLAND.

## CHAPTER I.

### THE BANK CHARTER ACT.

No public measure, of equal importance, has ever passed through so much good and evil report, with so little understanding of its true character, as the Bank Charter Act of 1844.

This Act has been ever since the subject of vehement comment, for and against. Committees of both Houses of Parliament have sat in judgment upon it. Numerous witnesses have recorded their opinions of it, in answer to the volumes of questions submitted to them, and ponderous Blue Books have given these Questions and Answers to the world. But, to this day,

men of commercial experience and men of intellectual renown are not agreed as to the real effects of this famous Bank Charter Act of 1844.

It is, however, a significant fact that, the great Capitalists are almost universally in favor of it, and that, almost everybody else, — who knows anything about it,—is against it. This is significant of its actual operation and effects.

It will be shown that, these effects are much more favorable to lenders than to borrowers, and that, as the borrowers are always the most numerous, the opponents of this measure very far outnumber its advocates.

If this be no argument against the Act, yet, it is a strong ground for inquiry; and if it can be shown that this Act has worked injuriously to the trade and industry of the country, and that, it is founded on erroneous principles, the case for repeal is proved, notwithstanding that the Act may have worked to the profit of the Bank of England and to certain large capitalists.

The present object is to prove this case.

The main enactments of the existing Bank Charter Act are five.

1. It establishes two separate and distinct departments, the one for the issue of bank-notes, the other for the ordinary banking business.

2. It enacts that, the Bank of England shall

transfer fourteen millions of Government Securities to the Issue Department, and shall receive from that department the same amount of bank-notes; and enacts that, the Issue Department shall issue to the public bank-notes to the same amount for any quantity of gold bullion which may be brought into that department for the purchase of such notes, and shall repay sovereigns, on demand, for all notes of the Bank of England presented to the Issue Department by the public.

3. It limits the issue of notes by country banks, according to the average of their circulation up to a certain time.

4. It prohibits the establishment of new country banks of issue.

5. It provides that, if any of the country banks should cease to issue notes, the Bank of England shall be authorised to issue notes, without any deposit of securities or bullion, to the extent of two-thirds of the lapsed issues of such country banks.

From this it will be seen that, the Bank of England, so far as *banking* is concerned, is placed on the same footing as every other bank in the kingdom. It is only the largest bank amongst many others, with a special and very good customer, the Government.

Mr. Samuel Jones Loyd, (now Lord Overstone who is supposed to have been the principal framer of this Act, and who is avowedly its most strenuous supporter, imperatively declares that, the Issue Department is perfectly distinct from the Banking Department of the Bank of England, and has no more to do with it than any other bank.

The fact that the bank-note still bears the name of the Bank of England, and is signed on behalf of that corporation, has perpetuated the illusion of the division of one and the same body into two subordinate departments, notwithstanding the disavowal of any such idea by the author of this curious contrivance. But that is only the illusion of the ignorant, and it is quite immaterial if, in the consideration of the whole question, the fact be borne in mind that, the Issue Department is quite separate and distinct from the Bank of England, and is wholly and entirely an office of the State for the manufacture of bank-notes,—as the Royal Mint is for the coinage of sovereigns.

It is important that this should be borne in mind for a correct understanding of the present question, for it will be maintained that, the Government, and not the Bank of England, authorises the issue of the notes, and, therefore, that the Government, and not the Bank, is

responsible for the payment of the notes in gold on demand, just as the Government is responsible for the gold and silver coin, of standard weight and purity.

This view of the case, though very important in its bearing and consequences, seems to have been generally overlooked; but it must be admitted by Lord Overstone to be consistent with all that he has ever written or declared in evidence before Committees of both Houses of Parliament on the subject.

Lord Overstone is a very eminent authority on the subject, but this admission made by him will go a long way to prove the fallacy of his reasoning and conclusions.

It will be convenient to notice, presently, some of his fallacies, which are so many obstructions to a right view of this question.

That the great capitalists will be the last to be brought to look at this question in the right point of view is only what is to be expected, but that will be of little consequence when it is clearly seen and understood by the community. The Land-owners were the last to see the impolicy of the Corn-laws, but, when understood by the People, those foolish and unjust laws were soon repealed.

## CHAPTER II.

### FALLACIES EXPOSED.

LORD OVERSTONE says:—"A paper circulation is the substitution of paper, with a view to economy and convenience, in the place of the precious metals.

"The amount of it ought, therefore, to be equal to what would have been the amount of a metallic circulation; and of this, the best measure is the influx, or efflux, of bullion.

On this ground I must assume that fluctuations of the bullion constitute the correct standard by which to measure a paper-currency."*

If this maxim were strictly carried out, it would lead to universal ruin.

Lord Overstone says; Eight millions are a satisfactory minimum reserve in gold; but for this opinion he gives no reason, and it is impossible to see how this is consistent with his opinion, before quoted, on a paper circulation.

* Metallic and Paper-currency, p. 191.

The object of a paper circulation is simply to economise the coin, and, to that extent, the capital of the country.

The greater the extent to which that economy can be carried with perfect safety to the community, the greater will be the advantage to the country from the adoption of a mixed circulation of gold and paper.

Paper is used to take the place of coin because paper costs nothing, and gold costs much, and both perform exactly the same work.

The only question, therefore, is, to what extent paper can be substituted for gold with perfect safety to the community.

According to Lord Overstone, Eight millions are a satisfactory minimum reserve in gold. He would, therefore, admit that less would be a more satisfactory minimum reserve in gold, if equally safe. But that is the question.

Now, the reasoning which will show the minimum reserve of eight millions in gold to be perfectly safe, will also show the mimimum reserve of two millions in gold to be equally safe; or, if it fail to show that, it will show that neither the one nor the other of these reserves would be safe. But, according to Lord Overstone,—"*a paper circulation should vary in amount exactly as the circulation would have varied had it been metallic;*"

"and that," he says, "is the only sound principle of currency."

This, as will be presently shown, is the great fallacy of the Act of 1844.

Again, Lord Overstone says:—"Management of the Currency means regulating the paper issues by the fluctuations of the bullion, and mismanagement consists either in putting out large quantities of paper-money and rapidly calling them in again, when there is a corresponding increase or decrease of the bullion: or, in taking in large quantities of bullion, and not putting forth notes against it. By this rule I contend that all issues of paper-money, whether Bank of England or Country issues, ought to be judged, and that their measures must, in every instance, be condemned, or approved, in proportion as they conform to, or violate it."*

Now, it is a fact, as will be presently shown, that the Issue Department does not produce such a correspondence between the paper-money and the bullion, and that there never can be, and never ought to be, any such correspondence between them.

Gold, although used for money, is also an article of merchandise, and is subject to the same

* *Ibid.* p. 202.

natural laws which regulate all other articles of merchandise.

A free trade in gold must always exist, and to say that the convertibility of bank-notes, payable in gold on demand, can be endangered, so long as the issuers of the notes possess the means of purchasing gold, and gold is to be purchased, is an unintelligible proposition.

If the supply of gold be equal to the demand, and the means of obtaining gold be equal to the occasion for it, it must be as unnecessary to keep in hand a stock of gold more than sufficient to meet the ordinary demand, as to keep in hand a stock of any other goods more than sufficient to meet the ordinary demand.

In the case of cotton, it is considered sufficient to keep in hand a stock enough to meet the ordinary demand.

Why should the rule for gold be different from the rule for cotton, when both are dealt with *as commodities?*

A small stock of gold has always proved sufficient to meet the ordinary demand for gold *as money.*

Who ever wanted to convert his bank-notes into gold to any large amount, unless he wanted the gold to send abroad in payment for goods, or to export as merchandise?

And who ever found any difficulty in converting his notes into gold to any amount, since notes were payable in gold?

When has the Bank of England note been of less value than the sovereign?

At no time has the sovereign been preferred to the bank-note, since it was made payable in gold on demand.

The Banking Department of the Bank of England has often been severely pressed to supply the demands, but the difficulty has always been as much to find the notes as the gold, and to the public it was a matter of indifference which of the two they carried away.

The greatest run ever made on the Bank of England was in 1825, and then it was saved from stoppage only by the accidental discovery of one million of unburnt one-pound notes. These were eagerly taken by the public, so perfectly, at that momentous crisis, was the note held equal to the gold. Great authorities say that, the bank-note was then in imminent peril, but on what ground they say so does not appear, for the very reverse was then proved to be the truth.

Since 1819, the Bank of England note has never been exposed to the slightest risk of depreciation.

This fact, proved by experience, is confirmed by science.

We see and know that the solvency of a responsible issuer is a complete and sufficient guarantee for convertibility.

We accept the evidence from experience, that the Bank of England and the Bank of Scotland have been solvent and responsible issuers, and have furnished practical and trust-worthy security for solvency and convertibility.

The Bank of England, when so near a stoppage in 1825, was then, and always has been, solvent.

It wanted then, what it accidentally found, the notes. These it has often wanted since, but if it had found them since, the Act of 1844 would have rendered them useless.

The radical defect of this Act is that, it prevents the means of supplying the want. It secures a solvent and convertible currency, but that was secure before.

The machinery of the Issue Department has secured solvency and convertibility, which were already secure; but it has, on several occasions, spread insolvency throughout the kingdom, and has retarded the progress of the greatest commercial country in the world, by an undue and wholly unnecessary restriction of the circulating

medium, thereby enhancing the price of money and lowering credit.

Lord Overstone says:—"It is the universal law of human affairs that every good must be purchased at its appointed price, and no country can expect to enjoy the double advantages of a currency regulated by a fixed metallic standard, without submitting to the occasional inconveniences and pressure which are the indispensable means for accomplishing that end."

This long sentence begins and ends with a simple truism.

The *appointed* price, and the *indispensable* means, constitute the question, which Lord Overstone seems to think he has answered by a general truism. This is the more strange when compared with his explanation of the object of a paper-circulation, before given in his own words.

It will be shown that, *the occasional inconveniences and pressure* are not *the appointed price* of *a paper-circulation regulated by a fixed metallic standard,* if properly regulated, and that, when the occasional inconveniences and pressure do occur, the fixed metallic standard will be in no manner the cause.

With regard to the separation of the Issue and Banking Departments, Lord Overstone says:—

"The only object of the proposed separation of the departments of the Bank of England is, to obtain an effectual security for the regulation of the amount of the paper-circulation of the country in correspondence with the fluctuations of the bullion, such regulation being deemed essential for the certain maintenance, under all circumstances, of the convertibility of paper issues and specie."

The true answer to this is that, it is the business of a Bank that administers a paper-currency in exchange for gold, or in lieu of gold, to have *no other end in view* than that of preserving its paper *strictly*, correctly, and invariably, upon a level with the value of gold.

The separation of the departments of the Bank of England can never obtain an effectual security for the regulation of the amount of the paper-circulation of the country in correspondence with the fluctuations of the bullion.

Experience was not required to show the fallacy of Lord Overstone's extraordinary assertion, the more extraordinary when made by a banker of his experience.

The fallacy has been already shown in the actual fluctuations between Bank of England *Notes* and Bullion; but when the amount of the *paper* circulation of the country is brought into

the question, it is difficult to find words to express the astonishment at such a statement as this by Lord Overstone.

Sir Robert Peel, as Chairman of the Parliamentary Committee of Inquiry on the Bank Act of 1844, said:—"I anticipate from the adoption of this measure a less fluctuation in the amount of the circulation—a less fluctuation in the range of prices; but I am not so unreasonably sanguine as to suppose that it will put an end to all speculation, and to all miscalculation in commercial matters. . . . We can prevent an additional stimulus being given to a rise of prices, and undue speculations by the influence of an ill-regulated currency, and this it is the duty of the legislature to attempt."

These anticipated effects have been in no way realised. The fluctuations in the amount of the circulation have not been less; nor have the fluctuations in the range of prices been less; but in both cases greater.

It is not the duty of the legislature to attempt to influence prices by regulations of the currency, nor is it possible to do so by any such means. Prices must necessarily vary according to the relative supply and demand, and can be in no way affected by the amount of notes in circulation. All experience confirms this principle. It

is not found that prices vary according to the amount of notes in circulation. Currency, as will be presently shown, has nothing to do with prices, the real use of currency being to circulate commodities and transfer debt.

## CHAPTER III.

### THE FALSE CURRENCY PRINCIPLE.

"THAT when Bank Notes are permitted to be issued, the number in circulation should always be exactly equal to the Coin which would be in circulation if they did not exist."

This principle is contained in the Evidence of Mr. Samuel Jones Loyd, (now Lord Overstone) before the Committee on Banks of Issue, 1840. Question 2663–4.

The following are his words:

"The precious metals converted into Coin constitute the money of each country. That Coin circulates sometimes in kind; but in highly advanced countries it is represented, to a certain extent, by paper notes, promising to pay the coin to bearer on demand, those notes being of such a nature in principle, that the increase of them supplants coin to an equal amount. When these notes are in use, the metallic coin, together with these notes, constitutes the money, or currency

of the country. Now, this money is marked by certain distinguishing characteristics; *first* of all, that its amount is determined by the laws which apportion the precious metals to the different countries of the world; *secondly*, that it is in every country the common measure of the value of all other commodities, the standard by reference to which the value of every other commodity is ascertained, and every contract fulfilled; and *thirdly*, it becomes the common medium of exchange for the adjustment of all transactions equally at all times, between all persons, and in all places. It has, further, the quality of discharging those functions in endless succession. Now, I conceive that neither deposits nor bills of exchange in any way possess these qualities. In the first place the amount of them is not determined by the laws which determine the amount of the precious metals in each country. In the second place, they will in no respect serve as a common measure of value, or a standard by reference to which we can measure the relative values of all other things; and, in the next place, they do not possess that power of universal exchangeability which belongs to the money of the country."

From the foregoing evidence it will be seen that the Witness used the words "Currency,"

and "Circulating Medium," as synonymous. Several other high authorities, examined before the same Committee, confirmed that opinion.

In Lord Overstone's opinion, money and currency are identical, and include the coined metallic money, and the paper notes promising to pay the bearer coin on demand. He says that the characteristic of their being 'money' is, that they are received equally at "*all times, between all persons, and in all places.*" He excludes bills of exchange from the designation of currency, because "they do not possess that power of universal exchangeability which belongs to the money of the country."

It is impossible to imagine a definition more fatal than this is, to the opinion so expressed; for, if this definition be the true one, then there *is no such thing as money or currency at all.* In the first place, it at once excludes the whole of the issues of bank notes. The notes of a bank in the remote district of Cumberland, would not be current in Cornwall, *therefore*, not being received equally at "*all times, between all persons, and in all places,*" they are not currency.

Again, the notes of a bank in Cornwall would not be current in Cumberland, *therefore*, they are not currency. We may almost say that there are no country bank notes which have a

general currency throughout England, therefore no Country Bank Notes are received equally at "*all times, between all persons, and in all places;*" *therefore*, no Country Bank Notes are Currency.

Till within the last 45 years, the Notes of the Bank of England had scarcely any currency beyond London and Lancashire, a preference being then universally given to local notes in country districts, therefore Bank of England Notes had not a power of "universal exchangeability;" *therefore* they were not currency.

If this test is to be applied, the claims of all Bank Notes to be considered as Currency are annihilated at once.

The acceptance of a Baring, or a Rothschild, or of Lord Overstone himself, would be received in payment of a debt by a far larger circle of persons than the notes of an obscure and remote country bank. But Lord Overstone excludes Bills from the term, "Currency," because their amount is not determined by the laws which determine the amount of the precious metals in each country. But is the amount of Bank Notes determined by these laws?

He says that the increase of Bank Notes only supplants Coin to an *equal* amount; but this is a most extraordinary assertion for a Banker to

make. Where the issue of them is free, it is absolutely certain that their amount will greatly exceed the amount of gold and silver coin that ever would have circulated. But the universality of this Witness' assertion is fatal to his argument in other ways. On the Continent silver is the legal standard of value. In Great Britain silver, like copper, is merely coined into small tokens, called shillings, etc., which are made to pass current above their intrinsic value, and are only a legal tender for a very trifling amount, hence it cannot be used in the adjustment of *all* transactions, therefore it is not received equally at "*all times, between all parties, and in all places:*" *therefore*, it is not Currency.

There are other countries where Gold is not a legal tender, therefore it fails to satisfy Lord Overstone's test, *therefore*, gold is not Currency.

It is easy to see that there is no substance, or material whatever that will not fail under this test, and therefore, *there is no such thing as currency.*

The fact is, that the only difference between a Bill of Exchange, and a Bank Note is, that the former is a promise of a deferred payment, and the latter that of an immediate one; and there is less risk in taking the latter than the former. From these circumstances a Bank Note possesses

a greater degree of circulating power than a Bill of Exchange. To all those who hold the doctrine that Bills of Exchange are not currency, or circulating medium, the answer is short and simple:—that even if the allegation were true, it is nothing to the purpose, because it only goes to show that there are different species of currency, or circulating medium, some of more eligible descriptions than others. But the allegation is not true, and the fallacy and absurdity of it are here shown. To prove the entire fallacy of Lord Overstone's doctrine on this subject;—he maintains that only Promissory Notes payable on demand are currency. But would not Notes payable one day, one hour, or one minute, after demand be currency? Are not Bank Post Bills, payable seven days after sight, currency? Where is it possible to draw the line? The same argument applies to one month, two months, three months, or any longer period. The answer is clear, that they are all species of currency, though differing in degree, and the distinction between them is untenable.

But though Lord Overstone's criterion of a Currency be fatal to his own view, what would he gain by it if it were admitted? For, what is it that exists in all places, in all times, and among almost all persons?

The answer is—DEBT OR SERVICES DUE.

And what is it that is universally required to measure, record, and transfer them?

Some material.

But we see that all Currencies are more or less local, none are universal. The idea, or want, alone is universal. The notes of a Country Banker, only circulating in his own neighbourhood, are like a country *patois;* each district has its own. A national currency rises to the dignity of a language. But even that is only local on a larger scale. The ideas only expressed in the language are universal. The only true idea of a Currency is, that it is the—REPRESENTATION OF TRANSFERABLE DEBT; and that, WHATEVER REPRESENTS TRANSFERABLE DEBT IS CURRENCY.

All persons, except those who advocate an inconvertible paper currency, agree that a paper currency must represent some article of value, and bullion has been generally chosen for that purpose. Now, the idea has occurred to a great many persons, that if it be necessary only that a paper currency should represent some article of value, why should it not represent any or all articles of value, such as Land, Corn, Silk, or any other commodity, and among others, the public funds? And this has actually been tried

in several instances, yet they have universally failed, and in many cases have been attended with the most dreadful calamities. Now, as this has uniformly happened, and must happen, it necessarily follows that there must be some radical error in the principle, and that it must oppose some great law of nature.

And this is, beyond all comparison, the most momentous problem in political economy:—Why is it improper to issue a paper currency on any other basis than that of bullion?

All the most eminent British Statesmen have instinctively resisted such proposals, although repeatedly pressed to do so. No doubt, it has been a most fortunate instinct for the country; but certainly all their reasonings on the subject have not followed their instinct.

The Bank Act of 1844 was the first occasion on which a small bit of this fatal theory was introduced, which, if only followed out to its legitimate conclusion would reproduce in this country the horrors of the Mississippi scheme in France. But though the British Parliament, by a blind unreasoning instinct, has always, with the exception just named, resisted such fatal advice, this will not satisfy the demands of Science. This was the error which brought the name of John Law into such unhappy notoriety, about 160

years ago. He was the great advocate of what is now the popular cry—basing a paper currency upon any article of value besides bullion. The only difference between him and our greatest statesmen is, that he carried out their arguments to their legitimate conclusion. He had the opportunity of carrying this theory into effect, and the result was ruin.

This has been so fully and clearly shown by Mr. Macleod, in his admirable work on "The Theory and Practice of Banking," etc., that it is only necessary to refer to that work,* from which these remarks on Currency are, for the most part, abridged. As the same writer adds:—"A moment's consideration will show that the theory of basing a paper currency on commodities involves this palpable contradiction in terms, *that one can buy commodities, and also have the money as well.*"

The origin of the Public Debt of this country was Bank of England Stock, which was advanced to the Government, in consideration of privileges conferred, and as these advances were made from time to time, increasing the Public Debt to the same amount, the Bank was allowed to issue notes to the exact amount of its capital, *i. e.*

* "The Theory and Practice of Banking." By Henry Dunning Macleod, Esq. Longman and Co. 1855.

the Public Debt, and this permission still continues.

If this permission had been carried out to its legitimate conclusion, the National Debt and the capital of the Bank of England would have been one and the same thing, and the paper notes of the Bank would have been nearly £800,000,000.

As Mr. Macleod observes; this fundamental principle of the Bank of England was as erroneous as the Mississippi scheme, and if this principle had been carried out much further, it must have ended in universal ruin; but that, in all these cases, such as the Mississippi scheme, the Ayr Bank, the French Assignats, or American banking, the mischief is not developed until the issues exceed a certain limit. In the case of the Bank of England, the mischief has been prevented from producing its inevitable consequences by rigidly restraining it within that limit. The depreciation of the issues is the evidence that the certain limit has been exceeded. That the Bank of England Note has not been depreciated, is evidence that the principle has not been carried far enough to develop the mischief.

The idea, therefore, of basing a paper-currency upon property, or commodities, or upon public stock, is essentially erroneous, and if carried out to its legitimate consequences, must terminate,

as it did in France, in 1796, and in America, in 1837–9.

But the Bank of England being based, from its commencement to the present time, on this vicious principle, the first step to the re-constitution of the Bank of England on a sound principle must be to restore the borrowed capital of the Bank.

This must be the foundation of the Bank of England, otherwise it is a Bank without capital, and must be unequal to its purpose and object.

The next important step must be to enlarge the credit capital of the Bank of England, by extending the power of the Bank over the issue of notes on Government securities.

That the safe limit has not been exceeded by the issue of £14,000,000 of Credit Notes is manifest from the fact that these notes have never depreciated. The issue might be extended to £40,000,000 or £50,000,000 on the same security with equal safety, the security depending on the solvency of the British Nation.

The fallacious theories which have so long bewildered the banking and commercial mind with regard to over-issues and over-trading will be passed over lightly here, the object being to expose the fundamental fallacies of the Bank Charter Act.

No practical purpose is now to be served by further discussion of the wearisome questions about Metallic Currency, and Paper-Currency, and how these are affected by Foreign Exchanges.

We never have had, and never can have, a wholly metallic currency. We have had a wholly and inconvertible paper-currency, and that, whilst it lasted, was an injustice and a disgrace to the nation. But we have paid for that vicious system, and got out of it, and are not likely to go back to it, whilst common sense, not to say common honesty, prevails in this country.

We have now a mixed metallic and paper-currency, based on bullion, as the acknowledged measure of value, and the only true basis of the representative value.

The convertibility of the bank-note into gold coin of the realm, on demand, is the foundation of the commercial honour and prosperity of this country, and must be preserved at whatever cost.

To show that the convertibility of the bank-note can be preserved at a much less cost than under the existing system, and with equal safety, is the present object.

## CHAPTER IV.

### MONEY, CURRENCY, AND CAPITAL.

MONEY is currency of intrinsic value.

The metallic currency is called Money, and the Paper-currency of all sorts is termed, Security for Money. These securities for money, or the paper-currency, are divided into two general divisions, *firstly*, promises to pay money, called Promissory Notes; and *secondly*, orders to pay money, called Bills of Exchange. Each of these general divisions, again, is divided into several varieties.

The Sovereign, or Pound, is 123·274 grains of standard gold, 22 carats fine, and 2 carats alloy. The sovereign was a new gold coin, made current by proclamation, of the value of 20*s*., on the 1st July, 1817.

Currency is that which passes current from hand to hand, for the transfer of Debt. It is evidence of a debt due to the possessor of it, proving that he has rendered services for which he has received no equivalent, but which he can

demand at any time It may, therefore, be laid down as a fundamental conception, that Currency and Transferable Debt are convertible terms; that whatever represents transferable debt of any description is Currency; and that, whatever material the currency consists of, it represents Transferable Debt, and nothing else. Therefore, where there is no debt, there can be no Currency. Where the exchanges are equal, there is no debt, and there can be no currency. The Debt represents the precise *inequality* of the exchange, and where there is no exchange, the debt must equal in value the service rendered. Hence it is clear that the use of currency is to supply the defect of the exchange, or, rather, in most cases, to do away with the necessity of an exchange. Its real use is manifestly to enable commodities to circulate, or move from the possession of one person to another, or to enable one person to render another services without the necessity of an exchange. Hence,—*The use of a Currency is not to facilitate exchanges, but to abolish exchanges.*

Circulation is the amount of the sum total of all the transferences of the currency. It is generally used as synonymous with money and bank notes, and more particularly the latter. Thus the number of notes issued by the Bank of England, or any other Bank, is called its circulation. But this is an objectionable term.

To call the notes which circulate a circulation, seems as great a confusion of idea, as to call a wheel a rotation. The word circulation, therefore, cannot properly be applied to the issues of a Bank. The more correct expression evidently is, the number of its notes in circulation. Currency denotes the substance itself. Circulation the amount of its transferences from hand to hand.

This simple definition of money and currency, as given by Mr. Macleod, will help to expose many of the common fallacies from the mis-use of these terms.

Capital is nothing but a store of accumulated labor, which has not yet been spent, and it is necessary to have some material substance to represent and measure it. That substance is money. Capital, then, in its primary and true meaning, denotes the accumulated savings of labor, and its symbol is, MONEY. Among most of the civilized nations, the weight of bullion is the measure of value. Capital, therefore, is the purchasing power, the moving power of commerce, the power that causes the goods to move from the producer to the merchant, or it is the circulating power, which causes the goods to circulate. In its primary meaning, it does not mean the commodities themselves, but the power which transfers the property in them from one person to another.

All goods are circulated, either by capital, or credit; hence, *capital and credit constitute the circulating medium.*

It will, therefore, be seen that every unsuccessful operation in trade alters the proportion between the currency and the capital, or the debt it represents; and though a few unsuccessful operations of this sort would not have any sensible effect in changing its value, yet a repeated succession must necessarily do so ultimately, just as adding a drop of water in a bucket may not perceptibly increase the quantity of the water, yet a continued series of drops will at length cause the water to overflow the bucket; so a continued series of such operations, under an inconvertible paper-currency, must necessarily result in a serious diminution in the value of the whole. But it may happen that, even though the merchant pay his debt, and no loss of capital ensue to the bank, yet it may be a loss of capital to him. Thus, when he bought the goods on credit, and gave his acceptance for them, which was purchased by the bank, he meant to employ those goods as *capital*, that is, he bought them merely for the purpose of selling them again with a profit. If he succeed in this object, and sell them to advantage, he pays his acceptance out of the proceeds realised by the goods, and his

Capital is increased more or less, according to the greater or less advantage he sells them at. But if he have made a miscalculation, and sell the goods at a loss, he must still make good his debt to the bank out of his remaining capital; and such a transaction is a loss of capital to him. But every loss of capital to an individual is a loss of capital to the whole community. And the great general result to the community is absolutely the same, whether the loss of capital fall upon the individual or upon the bank. The capital of the Nation is diminished, but the currency remains the same. Consequently, every unsuccessful operation in trade alters the proportion between the quantity of the Currency, and the quantity of the Debt, or the Capital it represents; and, therefore, every unsuccessful operation necessarily tends to diminish the value of the whole currency, unless some means can be devised by which a quantity of currency can be removed from circulation, corresponding to the loss of capital. Now, the diminution in the value of the currency inevitably shows itself in process of time, by a general rise in prices. It may do so gradually and imperceptibly at first —in the hourly variation of prices it may not, perhaps, be perceived at first,—just as when the waves are breaking upon the shore, it is im-

possible to tell whether the great tide be advancing or receding; but if it continue for any length of time, all traders begin to feel it instinctively. It is impossible, perhaps, to point out the precise influence in any particular transaction; but, yet, it makes itself felt, in commercial operations, by a general rise in prices. The fact is that, when the operation was done, and the production exposed for sale, it was expected and calculated that a certain portion of currency would be appropriated to the purchase. But, if people do not want the article, they will not appropriate that portion of currency to the purchase; the producer loses his capital, and the currency remains in circulation. And the increased quantity of it gradually enters into the prices of other commodities, aggravating them and swelling them up. Now, in this case, when the currency is made of a material which has a universally acknowledged value, nature herself provides the remedy. When commodities rise in price in this country, beyond their prices in foreign countries, besides the cost of transporting them here, they will be imported, and the extra quantity, thrown upon the market, diminishes their price, both by altering the rates of supply and demand, as well as by removing from circulation the quantity of currency, necessary to pay for them, until the

general equilibrium is again restored between prices, currency, and capital. But if the currency be made of a material which has no value whatever, like paper, this great natural restoring process cannot take place. The quantity of currency remains the same, while the capital it represents is diminished. The consequence is a general diminution in value of the whole currency,—all the portion of the currency which has no intrinsic value is driven out of circulation; then follows a great rise in the market price of bullion, and, as a necessary consequence, a fall in the foreign exchanges.

These considerations enable us to affix a definite and specific meaning to a phrase now in constant use, but which no one even attempts to explain. All discussions upon currency are full of misty and vague expressions about "excessive issues," "over-issues," but no attempt is made to define what an "over-issue" is. Now, "over-issues" in general, must consist of specific instances of over-issue in particular cases. Where is the use, or the sense, of casting vague and indefinite accusations against the Bank, of making "excessive issues," unless the charge be supported by pointing out specifically which issues are excessive, and which are not? Now, the meaning of an "excessive issue," or an "over-

issue," is an advance upon an unsuccessful operation, or *the purchase of a bad debt.* Every quantity of currency advanced to promote an unsuccessful operation, or which purchases a bad debt, alters the proportion between the currency and the debt, or the capital it represents. Each specific instance, then, of such an operation is an "over-issue," and the expression has no other meaning.

The foregoing considerations also show the complete fallacy of the theory of issuing notes on "good bills." In a Banker's sense, a "good bill" means simply a bill which is duly paid by the proper party at maturity. It is not the smallest consequence to the Banker, whether the transaction out of which the bill originated be a profit or a loss to the person who incurred the obligation, as long as he is paid. But if the expression, "good bill," be taken in a more extended and philosophical sense, to denote a bill upon which it is safe to issue currency, it is a very different matter indeed, for then "a good bill" can only mean one generated by a successful operation.

Every consideration of sound reasoning and science, then, proves that, the only true foundation of a paper currency is that substance which is the legal, or the universally accepted,

representative of DEBT, *i. e.* of services due, or CAPITAL, whatever that substance be. Now, among all civilized nations, gold or silver bullion is the acknowledged representative of Debt, or Capital. Consequently, gold or silver bullion is the only true basis of a proper currency. Among all civilized nations, *the weight of bullion is the acknowledged measure of value*, and, consequently, bullion is the only true basis of the representative of value. Many unthinking persons declaim against the absurdity of founding a paper currency upon the commodity of gold bullion, rather than any other commodity, such as wheat, or silk, or sugar. But it is not as a *commodity* that bullion is the basis of a paper currency, but as the substance which is the accepted representative of Debt or Capital. It would be perfectly possible to make a yard of broadcloth, or a Dutch-cheese, the representative of Debt and the measure of value; then the yard of broadcloth or Dutch-cheese would be the only true basis of a paper currency, and to issue paper upon the basis of bullion would, in such a case, be as improper as to issue paper on the basis of broadcloth or Dutch-cheeses under existing circumstances. But all nations are agreed that bullion is better fitted by nature for such a purpose than any other commodity;

and, consequently, as it seems to be the substance pointed out by nature for representing debt, bullion is the substance which forms the only true basis of a paper currency.

Bullion, then, as the symbol of Capital, is not only the sole proper basis of a paper currency, but is the only true regulator of its amount. As all paper currency is a "promise to pay" gold or silver bullion at some definite time, it is quite evident that the "promises to pay," floating in a nation, must bear some proportion in quantity to the actual quantity of the bullion. It is quite impossible to fix any definite proportion, because that depends upon a multitude of peculiar circumstances. Experience is the only guide on the subject.

Capital and Credit, or money, and promises to pay money, then, form the only true circulating medium, or currency, and they are its limits. If the limits of Capital and Credit be once transgressed, we plunge at once into the fatal error of the notorious John Law, and there is no logical goal, till we arrive at the Assignats of 1796, or the Issues in America in 1837; and even these did not reach the full limits allowed by the theory. It is impossible to exceed the boundaries of Capital and Credit in the smallest degree, without involving this absurdity,—*that*

*we can buy a thing, and keep the price of it as well.*

Capital and Credit, then, must always increase and decrease together. If a man's real capital be reduced from £1000 to £100, it is quite clear that he cannot keep in circulation as many "promises to pay," as when he had £1000; and if his real capital be leaving him, he must reduce his liabilities in a similar proportion. If he choose to spend £500 in buying commodities, such as corn, flour, etc., it is quite clear that he cannot spend the money, buy the commodities, and have the price as well. What is true of a single individual, is equally true of a Bank, or of a Nation. When an ordinary Bank feels a drain upon its bullion, it must reduce its liabilities, its "promises to pay," or else the ruin of that Bank is certain. Now, although this be true as a general principle, and applicable to private banks, yet it is not applicable to the Bank of England, invested with a monopoly in the issues of the legal tender money of the country, as will be shown in the future pages of this work, where it will be maintained that it is the reverse of true applied to the Bank of England, and that, as its bullion *decreases*, it ought to *increase* its issues, but under certain limitations.

The operation of reducing "Issues," or "Advances," is always one which will excite much complaint, and requires to be done with much delicacy; and, indeed, the grand problem, in regulating the paper currency, is to discover the true mode of acting upon it, so as, on the one hand, to maintain always its uniformity in value with the coin it represents, and on the other, not to contract it too suddenly and violently, and without giving the public sufficient warning to enable them to reduce their liabilities in proportion.

The plain and obvious method of controlling the paper-currency has almost entirely eluded observation. No person who apprehended the true nature of Banking, and expressed it in simple language, could fail to see the natural controller. The main business of commercial banking is discounting mercantile Bills, that is, buying debts. Discounting a Bill for a merchant, is not *lending* him money, but buying a debt due to him; and the price of such debt must follow exactly the same law as the price of corn, or any other article, if brought under the same law by exactly the like circumstances, but not otherwise. If money be very scarce and wheat very abundant, the price of wheat must fall; if money be very abundant, the

price of wheat will rise. The price of debts obeys the same rule, under the same circumstances. If capital become very scarce, the price of debts must fall, *i. e.* the discount must rise. If capital become abundant, the price of debts will rise, *i. e.* the discount will fall. The price of debts, then, must follow the same great natural law that the price of wheat does, if that law be left uncontrolled in its operation. Now, does not every man of common sense know that, it is foolish to try to control the price of wheat? It is not the fluctuation of the price of wheat that is the evil, but it is only the *sign* of the evil. The real evil is the change in the proportion of the demand and supply, and the fluctuation of the price is the grand natural corrector of the evil. Does not every one know that a *high* price of corn is the way to *attract* corn where it is deficient, and a *low* price the way to *repel* it from where it is already too abundant? Does not every one know that it is the most fatal folly to force down the price of wheat when there is a real scarcity, and to sell it below the price it would naturally attain?

Now, apply all the arguments which suggest themselves so irresistibly in the case of wheat, to the case of credit, or the purchase of debts, and the same results will follow, under the same, or

the like circumstances. The same natural law operates to preserve the due proportion between capital and credit, and any interference with this law must necessarily be attended with the same evil consequences, as an interference with the natural price of wheat.

The variations in the rate of discount, therefore, are, in truth, only the *sign* of the evil. The real evil is the altered proportion between capital and credit, and a variation in the rate of discount is the corrector of the evil. To attempt to keep the rate of discount uniform, when the proportion between capital and credit is altered, without taking any means to restore the due proportion, is to thwart and contravene the natural law, just the same as an attempt to fix the price of wheat; but if the proportion between capital and credit can be restored without altering the rate of discount, then there is no reason why a uniform rate of discount should not be preserved, and quite consistently with the natural law, for although variations in the rate of discount correct the real evil, yet these variations are also a great evil. The simplicity, beauty, and perfection of action in this natural law, as in all the laws of nature, is marvellous, and produces a multitude of results which are not, perhaps, at first, very obvious. If capital be leaving the country and becoming scarce,

compared to credit, every principle of nature shows that the value of money must rise, *i. e.* the rate of discount must rise; and this has a tendency to prevent the outflow of bullion, and to attract it from abroad; on the other hand, if capital be flowing into the country, and likely to become too abundant, compared to credit, a fall in its value, or a fall in the rate of discount, *repels* it from the country. If a nation be visited with a great failure of the crops, it can buy such food from foreign countries only with its commodities or its money; it cannot send its credit in payment abroad. If commodities be too dear, it must pay with money, and credit in this country is the great producing power, and *for a time* is a great sustainer of prices, by enabling people to withhold their commodities from the market. Now, raising the rate of discount curtails credit, forces sales, and thereby lowers the prices of commodities, and makes it less profitable to export specie, and more profitable to export goods. Moreover, this rise in the value of money here, *i. e.* the low price of debts and commodities, tempts buyers from neighboring countries to bring their money here. It thus causes an influx of bullion, and restores our currency to a uniformity of value with that of neighboring countries. Again, if this nation have to spend a

great part of its money in buying foreign corn, it is quite clear that it has not got so much money to spend in purchasing goods; an over-production of goods, therefore, can only end in a disastrous fall of prices. And here, too, the beautiful action of the natural law is manifest. So enormous a proportion of the commodities of this country are produced by the credit system, that a rise in the rate of discounts just hits profits between wind and water. Consequently, a rise in the rate of discount retards and curtails production in proportion to the diminished consuming powers of the nation, and so prevents such a ruinous fall in price as would necessarily follow an undiminished production, accompanied by a diminished power of consumption. But, this result is a great disturbance to trade and a great loss to the country, and still the question remains, whether, with a mixed metallic and paper-currency, the same result cannot be produced with less disturbance to trade than by raising the rate of discount beyond a certain fixed *maximum*.

In fact, when a commercial crisis occurs in a country, it invariably means that more persons are wishing to sell than there are persons to buy; or, at least, at remunerative prices. A commercial crisis invariably arises from a lack of pur-

chasers, which is, in fact, over-production. True prudence, therefore, shows that, in all commercial crises, *production should be curbed.* It is much better not to produce at all, than to produce and be obliged to sell at a loss. To produce and be obliged to sell below the cost of production is loss of capital. It is better, therefore, not to employ the capital at all, than to lose it. Raising the rate of discount, therefore, acts as a timely warning to producers to hold hard, but, in that case, especially with a paper-currency, it may be better still not to discount at all, than to disturb the uniform rate of discount.

Now, what is the necessary consequence of an attempt to thwart this great natural law? In time of scarcity of food and a necessary export of money to buy it, if the rate of discount be kept unnaturally low, nothing but money will go; commodities are too dear, they will not go. Again, money being kept at an unnaturally low rate here, no one will bring it here from neighboring countries, consequently, great quantities of money will go out, and none will come in, till at last, the circulating medium will be nothing but "promises to pay," and no money to pay them with. Then, at last, violent convulsions, total destruction of credit, every one wishing to sell, and no one wishing or able to buy.

On the other hand, if Capital, when flowing in with too great abundance, be not repelled by a due diminution in the value of money—*i. e.* a fall in the rate of discount, or a suspension of discount,—capital will continue to flow in until it be so superabundant that a violent fall takes place. Persons who are accustomed to depend on the incomes they derive from the interest of money, suddenly find that their means are seriously diminished; then wild speculations find favor in the public mind, promising higher profits, and then the community goes through the cycle of bubble speculation, extravagant credit, ending in a commercial catastrophe.

The object to be aimed at should be to preserve a uniform rate of discount in this country, and at the same time to maintain a uniformity in the value of the British Currency with that of other countries. If money, that is, gold or silver, be made artificially cheap in this country, that is, cheaper than it is in neighboring countries, persons in this country will export it to where it is of greater value; they will buy foreign securities, they will import foreign commodities. On the other hand, foreign nations will flood this country with their securities; just as the Americans did in 1839, when the Bank kept down the rate of discount below its proper level; because

they can sell their securities at a better price here, than in their own country. But in neither of these cases would an alteration in the rate of discount be necessary, if that uniformity in the value of the currencies can be otherwise preserved.

When the Americans wished to sell their debts, and found that, in their own country they could get only £90 per cent. for them; whereas, they could get £97 per cent. for them in England; as a natural consequence they sent them to England for sale, and took away the cash. The only way for England to have stopped this would have been to give no more for these securities than the Americans themselves would give; in other words, to maintain a uniformity in value between the currencies of the two countries.

When the Foreign Exchanges are unfavourable to this country, the simple meaning of that is, that it is profitable to export gold. But, where is the gold got from for exportation? From the Bank of England. And how is it got from there? By getting hold of the Bank's "promises to pay" gold on demand. Now, when the Bank of England knows that a multitude of persons are trying to get hold of its promises to pay, for the purpose of demanding gold for them, and to carry that gold out of the country, it

would be folly in the Bank to be multiplying its "promises to pay" in all directions, and selling them cheap.

When gold is leaving the country, nothing can bring it back again here, except selling our commodities, or debts, cheaper than other nations.

As soon as the exchange becomes so unfavourable as to make it profitable to export gold, an immense number of bills are fabricated for the purpose of being sold for the sake of the premium; and these will continue to be fabricated as long as the rate of discount is kept below that of neighboring nations. Now, raising the rate of discount, or stopping discount by a moderately fixed *maximum*, strangles all such operations in the birth.

If the rate of discount be kept below its natural level, it stimulates and encourages production so much beyond the powers of consumption that, it must necessarily terminate in an aggravated fall of prices. In that case a timely raising of the rate of discount to the fixed *maximum*, would be a warning to producers to contract their operations.

It is, then, an incontrovertible fundamental truth in Monetary Science that, Capital and Credit form the circulating medium, and that they

must increase and decrease together. An increase of Currency without an increase of Capital, has no effect but to diminish the value of Currency.

The same thing happens if, when Capital is destroyed, Currency be not destroyed with it. If a metallic currency increase faster than capital, the natural law provides a remedy; the metallic currency is immediately exported. But, with an inconvertible paper-currency, this cannot happen; and, when capital is destroyed, currency remains in circulation. When this goes on for any great length of time, or to any considerable extent, the inevitable result is, a depreciation of the paper-currency, which is shown by the rise of the market above, what is called, the Mint price of gold. This was eminently exemplified in England in the years subsequent to 1810. The extravagant speculations were followed by an enormous destruction of capital; but the currency which was issued to represent it remained in circulation, and soon manifested itself in a rapid fall in the value of paper. It was impossible that paper ever should right itself, unless this superfluous currency were destroyed, and this was brought about by the destruction of the issuers of it.

Such are the principles which must regulate the money of all countries. If the money con-

sisted only of the precious metals, these principles would be perfectly simple and self-regulating. But, in most civilized countries, the money consists partly of the precious metals, and partly of paper, of no intrinsic value, but of an artificial value, dependent wholly on credit.

To adapt this artificial and complex system to the natural and simple system, opens a great variety of questions, and although these are to be determined by analogy with natural principles, yet, if the same reasoning be followed out with the artificial system of a mixed currency, as with the natural system of a purely metallic currency, the conclusion will be erroneous, and the result confusion. This is the error of Lord Overstone, and of all those who advocate his theory of variation. And this is the great error of the Bank Charter Act of 1844.

The principle, so clearly laid down and explained by Mr. Macleod in his work before referred to, has been here more particularly noticed for the purpose of expressing a distinct assent thereto, as a general principle, but also for the purpose of more distinctly dissenting to the application of this principle and the reasoning therefrom to the Bank of England, constituted as it is, under special circumstances, to carry out a system entirely artificial.

## CHAPTER V.

### MONEY PANICS.

THERE are three kinds of Money-Panic.

1. Panic arising from a drain of Gold from the Bank of England.

2. From a contraction of Credit.

3. From the combined results of the contraction of Credit, and the diminished amount of Bullion in the Bank of England.

These Money-Panics have been more frequent since the Bank Act of 1844, than before.

Of these occurrences the following have been the most serious, and are said to have arisen from the following causes:—

1793 and 1797. These panics arose from the drain of Gold sent Abroad, for subsidies and loans to our Allies. These Gold Panics were partially relieved by the advance of Exchequer Bills, on the deposit of merchandise, but ultimately by the Restriction Act of 1797, making the Bank of England Notes, in effect, a legal

tender. This Act continued in force until Sir Robert Peel's Bill in 1819, enacting a return to Cash Payments.

1810. This Panic arose from over-trading in produce and excess of Exports, when the Bank of England raised its Discounts from 13 millions in 1808, to 20 millions in 1810, an increase of 53·8 per cent. This was a Credit Panic, as the Bank of England then had the power of issuing an unlimited amount of inconvertible notes.

1815. This Panic arose from the inflation of mercantile Credit, and vast speculations in Cotton and other produce, when eighty Banks suspended payment. This was a Credit Panic, as the Bank of England still continued to issue inconvertible notes.

1822. This Panic was caused by the Bank of England reducing its Discounts from 15 millions to 3 millions, in order to secure the convertibility of the Bank-Note; and by the contraction of Bank of England and Country Bank-Notes from 48 millions in 1818, to 26 millions in 1822. This was a Gold Panic, lowering the price of the British Funds, the stocks of goods held by the mercantile and trading interests, and agricultural products, to the extent, as estimated, of 200 millions; and, allowing that only

one-fifth part of such investments was forced on the markets during the Panic, it may be assumed that, the total loss, including the failure of Banks and Mercantile Houses, the partial closing of Mills, and non-employment of workmen, was not less than £30,000,000.

1826. This Panic arose from excessive (*i. e.* unprofitable) speculations in foreign Mines, in Cotton and other products, called, *over-trading*, but really, *unsuccessful trading;* also from the increased issue of Notes, which gradually rose from 33½ millions, in 1823, to 41 millions in 1826, an increase of 22·3 per cent. This Panic is estimated to have lowered the prices of funded and other property, the stock of goods held by the mercantile and trading interests, to the extent of 300 millions, and the assumed loss by the different parties is estimated at 45 millions. During this Panic the Gold in the Bank of England was reduced below a million, and the Credit of the Bank was saved only by the issue of about 2 millions of £1 Bank of England notes accidentally found in the Bank.

1832. This Panic lowered the price of Public Securities and other property, to the extent, as estimated, of 100 millions, causing a loss to the trading and other interests, estimated at 15 millions.

1836–37. These Panics, called the American Panics, originated with and were chiefly confined to Mercantile Houses, connected with the United States. The loss was estimated by the Manchester Chamber of Commerce, for that City alone, at 40 millions.

The amount of Gold in the Bank of England had decreased to such an extent that its credit was maintained only by a loan of 2 millions from the Bank of France.

1847. This Panic, which was caused by a bad harvest, and great speculations in Corn and Railways, was brought to a crisis by the surplus purchases of Corn by the French Government being sent to this Country in the months of June and July, to the extent of about 70,000 quarters, which were weekly forced upon the market by the Messrs. Rothschild, at prices much below the current rates. For several successive weeks there was, in consequence, a fall of 8*s.* or 10*s.* a quarter, finally reducing prices from 96*s.* to 56*s.* Such a fall as this in the value of Wheat brought to a state of bankruptcy a large number of Houses connected with the trade in Corn, and this was followed by many other Houses engaged in general trade, which brought on a Money Panic. The amount of Gold and Silver Coin and Bullion in the Bank

of England was reduced, on the 23rd October, to £7,865,445, and the Bank reserve of notes to £1,547,000; and the Credit of the Bank was saved only by the Government authorizing an addition to its issue of 2 millions of notes.

This Panic is estimated to have lowered the price of funded and other properties 400 millions, and the loss to the funded and other interests is estimated at 60 millions.

1857. This Panic arose from a Money-Panic in America, which brought down a great number of our large Mercantile Houses, connected with America, and was followed by the failure of several large Joint Stock Banks in the North of England, arising from improvident advances by the Managers of such Banks. The Gold in the Bank of England was reduced to 6½ millions, and the notes in reserve to £957,000, and the solvency of the Bank was only sustained by another authorized issue of 2 millions of notes. This Panic is estimated to have lowered the prices of funded and other property 400 millions, and the loss to the fund-holders and other interests, and the failure of the Banks, and other Mercantile Houses, is estimated at 80 millions.

Thus, the aggregate loss to the community generally from the Panics, between the years 1819

and 1857, may be fairly assumed to have been not less than £270 millions, of which £140 millions are since the Bank Acts of 1844–45.

And now, at the end of the year, 1864, after an Autumn of severe difficulty, this country is still suffering under a pressure on the money-market amounting almost to a money-panic, although the amount of Bank of England notes in circulation on the 28th of December, 1864, was £19,700,985; and of gold coin and bullion in the Issue Department was £13,386,475; and the reserve of notes in the Banking Department was £8,663,490, and gold and silver bullion £714,499; making the total amount of notes in circulation, including Bank post bills £19,810,435, and the total amount of coin and bullion in the Bank £14,100,974. And the Bank-rate of discount was 6 per cent.! the average of the whole year exceeding 7 per cent.!

That all these derangements of the currency and consequent losses might have been prevented will be the judgment of posterity.

It is impossible, however, in the face of these facts, to assume that the solvency of the Bank of England, or the convertibility of the note, was made more secure by the Act of 1844, than it was before.

In support of this opinion, the actual state of the Bank of England at any period of time might suffice; and the Weekly Return on the 23rd October, 1847, is taken accidentally as an example.

LIABILITIES.

| | £. | £. |
|---|---|---|
| Notes Issued . . . . . | 21,865,445 | |
| Deduct held by the Bank . | 1,547,270 | |
| | | 20,318,175 |
| Public Deposits . . . . . | | 4,766,394 |
| Other Deposits . . . . . | | 8,580,509 |
| Seven days and other Bills . . . . | | 947,013 |
| | | £34,612,091 |

ASSETS.

| | | |
|---|---|---|
| In the Issue Department: | | |
| Gold Coin and Bullion . . | 6,745,354 | |
| Silver Bullion . . . . . | 1,120,091 | |
| | £7,865,445 | |
| In the Banking Department: | | |
| Gold Coin and Silver. . . | 447,246 | |
| | | 8,312,691 |
| Balance which the Bank could not pay in Gold or Silver . . . . . | | £26,299,400 |

Again, on the 11th November, 1857, the day before the suspension, the state of the Bank of England was this:—

LIABILITIES.

| | £. | £. |
|---|---|---|
| Notes Issued . . . . . | 21,141,065 | |
| Deduct held by the Bank . | 957,710 | |
| | | 20,183,355 |
| Public Deposits . . . . . | | 5,314,659 |
| Other Deposits . . . . . | | 12,935,344 |
| Seven days and other Bills . . . . | | 853,075 |
| | | £39,286,433 |

ASSETS.

| | | |
|---|---|---|
| In the Issue Department: | | |
| Gold Coin and Bullion . . | 6,666,065 | |
| In the Banking Department: | | |
| Gold Coin and Silver . . | 504,443 | |
| | | 7,170,508 |
| Balance which the Bank could not pay in Gold or Silver . . . . . | | £32,115,925 |

Thus, it appears that the convertibility of the Bank Note, so far as it is secured by the Act of 1844, is a mere political fiction.

It was said, in 1844, by Mr. Samuel Jones Loyd (now Lord Overstone) that the Bank Charter Act of 1844 "has been justly described by its author, (Sir Robert Peel) as the complement of the Bill of 1819, as the further step which was necessary to render that measure complete, and to render to the Public every pos-

sible security for the maintenance of specie payments. *This is the true object of the measure; and by its efficacy, or otherwise, in this respect, the success or failure of the measure ought to be tried.*"

How, then, stands the question with regard to the Bank Charter Act of 1844? It was suspended by a Government Letter in 1847, and again in 1857. On an inquiry into the circumstances of the first suspension, the Bank Charter Act was decidedly condemned by a Committee of the House of Lords, and it only escaped a similar fate in the House of Commons Committee by the accidental absence of two members of that Committee. Of the seventeen witnesses examined before the Committee of the House of Commons in 1848, thirteen condemned the Act, and four supported it. Among its four supporters were three Directors of the Bank of England, and Mr. Samuel Jones Loyd. Among those who condemned it were the late Mr. Samuel Gurney, the largest money dealer in Europe, Mr. George Carr Glyn, the eminent London Banker, Mr. Bates, of the House of Messrs. Baring, Brothers, & Co., and Mr. Birbeck, the recognised representative of the Country Bankers of England. At this time Lord Ashburton (formerly Mr. Alexander Baring) a financial authority, at least, equally high with Lord

Overstone, pronounced it, as his judgment, that the Bank Charter Act "*was a great experiment which had signally failed.*" But it now stands condemned by the fact, that it has *signally failed* on the two occasions on which it has been put to the trial. It stands condemned by the very test which Lord Overstone himself propounded, namely, its efficiency in giving to the Public "*every possible security for the maintenance of Cash Payments.*" It also stands condemned by the community in general as a most unrighteous, unjust, and unwise measure, carried by the undue influence of the great Capitalists, against the true interests of the Country at large, as the rich man's law, by which the rich are made richer, and the poor are made poorer; as the Usurer's law enhancing, by artificial restrictions, the value of money above its natural price; and as a complication of deceptions and delusions, disgraceful to the intelligence of an enlightened and enterprising people.

Such is the effect of the Bank Charter Act of 1844.

But it is not intended by these remarks to impute to the promoters of this measure anything more than an imperfect knowledge of the principles on which alone our artificial monetary system can be established on a safe basis.

## CHAPTER VI.

### THE BANK ACTS.

It will be convenient now for some readers to take a short review of the Bank Acts, commencing with the Bank Restriction Act, passed 3rd May, 1797. The following are the principal features of thisAct:—

1. That the Bank should not be compelled by any Action at Law to pay its Notes on demand, otherwise than in its own Notes, and the Bank had power to apply to the Court to stay proceedings. No Costs were allowed in the Action against the Bank, unless the Court were of opinion that the Action was brought to ascertain the amount of the debt demanded.

2. The Bank to issue Cash only for sums less than 20*s*. and for the services of the Army, Navy, or Ordnance, by an Order in Council.

3. The Bank not to issue any money in Cash, or Notes, by way of loans or advances to Government.

4. The Bank may receive sums of money not

under £500, and engage to pay three-fourths in Cash of the sum deposited.

5. A sum not exceeding £100,000 may be advanced for the accommodation of the persons dealing as Bankers in London and Westminster, and the Borough of Southwark, in such manner as the Governor and Company shall deem expedient.

6. To the Bank of Scotland, and the Royal Bank of Scotland, £25,000 cash may be advanced to each.

7. Payment in *Notes* to be considered payment in *Cash*, if accepted as such.

8. The Public Revenue to be received in Bank Notes by Collectors of the same, except in sums less than 20*s*. or fractional parts of a pound.

9. The Bank may pay in Cash by giving five days' notice to the Speaker of the House of Commons.

It is remarkable that in this Act no provision was made for rendering the Notes of the Bank of England a *legal tender*, probably from the hostility which at that time existed against the introduction of such a principle.

## The Bank Act Of 1819.

The following is an Abstract of the Act of 1819, commonly known as Sir Robert Peel's

Act, from the influence which he exercised in passing it through Parliament. But it will be seen that, as it had reference only to the Bank of England, it could, therefore, exercise very little influence over other Banks of Issue, either as regards their solvency, or, what is called, the general convertibility of the bank notes.

This Act, 59 Geo. III. c. 49, passed 2nd July, 1819, continues the Restrictions contained in several Acts on payments in Cash by the Bank of England, until the 1st May, 1823, and provides for the resumption of Cash payments, and permits the exportation of Gold and Silver.

Sect. 1. Sets forth the object of the Act, and continues the restriction of Cash payments by the Bank until the 1st May, 1823, and after that date the Bank to resume payments in Cash.

Sect. 2. Requires the Bank to pay its Notes in gold, on demand, at the rate of £4. 1*s.* per ounce, from 1st February to 1st October, 1820.

Sect. 3. Requires the Bank to pay its Notes in gold, on demand, at the rate of £3. 19*s.* 6*d.* per ounce, from 1st October, 1820, to 1st May, 1821.

Sect. 4. Requires the Bank to pay its Notes in gold, on demand, at the rate of £3. 17*s.* 10½*d.* per ounce from the 1st May, 1821, to the 1st May, 1823.

Sect. 5. The Bank is permitted to pay its

Notes in gold, on demand, at a less rate than £4. 1*s.* 0*d.* per ounce, from the 1st February to 1st October, 1820, and between the 1st October, 1820, and the 1st May, 1821, at less than £3. 19*s.* 6*d.*, but not less than £3. 17*s.* 10½*d.* per ounce, by giving three days' notice in the *London Gazette*, specifying the particular rates at which the payments shall be made.

Sect. 6. Payments only to be made in ingots, or bars, of 60 ounces of standard fineness.

Sect. 7. Sums of less than 40*s.* to be paid in Silver Coin.

Sect. 8. The Bank may pay in the coin of the realm from 21st May, 1822.

Sect. 9. The Bank is required to deliver weekly Accounts to Government, and to publish Quarterly statements of its Accounts in the *London Gazette.*

Sect. 10. The gold and silver coin of the realm may be melted down, manufactured and exported without any restriction or penalty.

Sect. 11. All the Acts which prohibited the melting or exportation of gold and silver, from the 9th of King Edward the Third, to the 13th and 14th of Charles the Second, are repealed.

Sect. 12. Oaths respecting the export of silver, and so much of the Act 6 and 7 William the Third, as prevented persons, not being a trading

Goldsmith, or Refiner of silver, from buying or selling silver bullion under a penalty of six months' imprisonment, are abolished.

Sect. 13. Clipping or diminishing the Coin of the realm, to be subject to penalty.

THE BANK ACT, 3 & 4 WILL. IV., c. 98. 1833.

By this Act the Bank Charter was renewed in 1833, and extended to 1855, but with a proviso that it should cease in August, 1845, upon 12 months' notice being given, and repayment of the Debt due by the State.

Several important changes were introduced by this Act. By the 3rd Section, the exclusive privilege of the Bank, with regard to partnership exceeding *six* persons, was abolished. Persons discounting Bills of Exchange or Promissory Notes, were not to be subject to the penalties of the Usury Laws. Bank of England Notes were first made a legal tender for all sums above £5, except at the Bank or its Branches, so long as it continued to pay its Notes on demand in *gold coin*. Country Joint Stock Banks were first allowed agents in London. By this Act *one fourth* of the debt due to the Bank, namely, £3,676,700, was to be paid off, which was effected by a transfer of £4,080,000, in 3 per Cent. Reduced Annuities for the amount. The Bank

was also to deduct £120,000 per annum from the charge of managing the Public Debt. The Accounts were, in pursuance of the Act, to be published quarterly in the *London Gazette*.

### The Bank Charter Act Of 1844, 7 & 8 Vict. c. 32.

By this Act the Bank Charter was again renewed for a period of ten years, on 12 months' notice being given *after* the 1st August, 1855. This Act can scarcely be said to refer simply to the "*privileges*" of the Bank alone,—inasmuch as it contains clauses which completely changed the entire monetary system of England. The professed object of these changes, as stated by Mr. Henry Goulburn, then Chancellor of the Exchequer, was "to prevent as much as possible, fluctuations in the currency, of the nature of those which have, at different times, occasioned hazard to the Bank, and embarrassment to the country." But the principal alteration in the Act was, the separation of the *Issue*, from the Banking, Department, an alteration which has, to the present moment, given rise to the most varied opinions amongst those who oppose, and those who support, the measure.

That the Act has failed to prevent fluctuations in the currency it needs no argument to prove;

for, in the crisis of October, 1847, this separation of the Bank into two Departments was thoroughly tested, and, as admitted by Mr. Morris, the Governor of the Bank, in his evidence before the Lords' Committee, although the Bank held £8,439,000 in bullion, and a reserve of £1,600,000 in notes, on the 30th of October, 1847, had the Bank been called upon for notes beyond that amount, it must have stopped payment, [Lords' Report, Question 22], notwithstanding the large amount of bullion in its coffers.

The Government Letter was addressed to the Governor and Deputy Governor of the Bank of England, by Lord John Russell, Premier, and Sir Charles Wood, Chancellor of the Exchequer, dated, Downing Street, October 25th, 1847:

By this Act the power of the Bank to issue its Notes was regulated as follows, namely, that a sum, equal to £14,000,000, should be issued on Government securities, of which the debt due to the Bank, amounting to £11,015,100 should form a part, and the remainder to consist of other securities, amounting to £2,984,900; any excess of this sum in the Issues to be represented by gold and silver coin and bullion, the proportion of the latter to be only *one-fourth* of the whole amount of the metallic security.

The form of the Weekly Account to be rendered by the Bank is given in the Act. By this form, the "Notes Issued" on the debit side of the Issue Department is calculated to mislead; for it does not represent the notes actually in *circulation*, but, simply, the extreme limit of the *power* to issue at such a date. The form does not exhibit the Notes actually in the hands of the public, except by an operation of figures, taken from the *Banking* Department, whereon the Credit side will be found, "Notes £—" which, if subtracted from the "Notes Issued," leaves £— the sum in the hands of the Public. As the Bullion in the Issue Department diminishes, the "Notes" in the Banking Department diminish also; and hence the alarm at this last item when reduced to a low figure; and it has been considered by the highest authorities that the placing of the Bullion in the Issue Department, against the £14,000,000, which ought to be balanced by the Bank Debt and Government Securities, is a great error, and one calculated to create great alarm about the bullion when no danger exists.

The Act also limits the Issues of all existing Banks to a fixed amount, according to an average of *twelve weeks* preceding the 27th April, 1844, under a penalty of forfeiting a sum equal to the excess.

No new Banks of Issue can be established, and any Banker ceasing to issue his own notes cannot re-issue such notes.

The Bank to allow a deduction of £180,000 per annum from the charge of managing the Public Debt.

These are some of the principal features of the Bank Act of 1844, of which the following is an Epitome :—

*The Bank Charter Act of* 1844, 7 *&* 8 *Vict. c.* 32.

An Act to regulate the Issues of Bank of England Notes, and for giving to the Governor and Company of the Bank of England certain privileges for a limited period. [19th July, 1844.]

1. Preamble.

2. The separation of the Issue from the Banking Department, to commence on the 31st of August, 1844.

3. The proportion of Silver Bullion to Gold, not to exceed one-fourth.

4. All persons may demand notes for gold bullion, at £3. 17*s.* 9*d.* per ounce.

5. The Bank may increase securities in the Issue Department, and issue additional Notes equal to one-third of Country Notes, ceased to be issued.

6. Weekly returns of the Bank to be published.

7. The Bank to be exempt from Stamp Duty, or Composition on their Notes.

8. The Bank to deduct £180,000 per annum, on the charge for the Public Debt.

9. The Bank to allow the profits on increased circulation to the Government.

10. New Banks of Issue prohibited.

11. Restrictions upon Banks of Issue.

12. Bankers ceasing to Issue cannot re-issue their notes.

13. Limitation of Bank Issues to a fixed amount.

14, 15, 16, Sect. regulate the union of Bank partnerships.

17. Penalty on Banks issuing in excess.

18. Issuing Banks to render Accounts.

19. Mode of ascertaining the average amount of Bank Notes of each Banker in circulation during the first four weeks after the 10th October, 1844.

BANKS OF IRELAND ACT, 1845, 8 & 9 VICT. CAP. 37.

The principal features in this Act are as follows:—

Sect. 5. Repeals 33 Geo. II. c. 14, s. 15, so

far as prohibits public officers from being partners in Banks.

Sect. 6. Bank of England Notes *not* allowed to be a *legal tender* in Ireland.

Sect. 8. No Banker, who was issuing his own Notes on the 6th May, 1844, and on the 1st May, 1845, allowed to exceed the average amount of Notes he had in circulation during the year preceding the 1st May, 1845, allowed to exceed the average amount of Notes he had in circulation during the year preceding the 1st May, 1845, such circulation to be certified by the Commissioners of Stamps, and after that date no uncertified banker allowed to issue Bank Notes in Ireland.

Sect. 12. Banks permitted to relinquish their Notes in favor of the Bank of Ireland by an Agreement in writing, and the Bank allowed to increase its Issues to the same amount, exclusive of gold and silver coin.

Sect. 13. No Banker having relinquished the right to issue Notes can resume his Issues.

Sect. 16. Every Issuing Bank to render weekly accounts to the Commissioners of Stamps and Taxes, distinguishing the Notes of £5 and upwards from those below that value; and also to deliver an account of the total amount of gold and silver coin held at the head office, etc.

Sect. 18. The Commissioners of Stamps and Taxes to make monthly returns of every Bank of Issue, containing the average amount of notes in circulation, and also of the amount of gold and silver coin held by each Banker, and publish the same in the *Dublin Gazette*.

Sect. 20. The amount of Silver Coin not to exceed *one-fourth* of the gold coin held by such Bankers; and no Bankers to issue notes on silver to a greater extent than one-fourth part of the gold coin.

Authorised Issues of Irish Banks, £6,354,494.

## Banks In Scotland Act, 1845, 8 & 9 Vict. cap. 38.

By this Act, passed in 1845, the Scotch Banks of Issue were assimilated to the Banks of Issue in Ireland, by fixing a limit to their authorised Issues, based on an average amount of Notes in circulation during the year preceding the 1st May, 1845, such amount not to be exceeded, except the excess of such issue be covered by gold and silver coin at the *head office*, in the proportion of *one-fourth* of silver to three-fourths of gold. Only the Banks specified to issue Notes under £5; and Bank of England Notes not allowed to be a *legal tender* in Scotland.

Authorised Issues of Scotch Banks £3,087,209.

## CHAPTER VII.

### THE GOLD COINAGE.

THE standard fineness of the gold sovereign is 22 carats out of 24, the representative of fine gold, or 11-12ths of fine gold, and 1-12th of alloy; and the standard *weight* of the same coin is 123·274 grains troy, which constitute the money integer in which all values are reckoned; the quantity of fine gold in the sovereign is, therefore, 113·001 grains troy. This standard of weight and fineness, to represent the pound, was fixed by Sir Isaac Newton in 1717, when Master of the Mint.

It is a common error to consider these regulations as a "standard of value;" whereas, they only constitute a standard *measure* for estimating the relative value of different things compared with gold.

The common expression "Mint Price," is a term equally vague and uncertain. There is no such thing as Mint price, applicable either to gold or silver. The Mint authorities, in their

management of the Coinage, are simply authorised to coin a given weight of bullion, either gold or silver, of a specified fineness, into a certain number of pieces of a given denomination, according to regulations laid down in a document called the "Mint Indenture." It is this that gives to all the coins a certain fixed legalized value, as currency, which can never be departed from but by the authority of parliament.

Many attempts have been made by different Statesmen and others to preserve a uniform value between the *coin* and the *bullion* from which it is manufactured, but without effect, as the nominal value, given to *coin* in one country, ceases to exist the instant it enters another country; and it is estimated only by the quantity of fine metal contained in it.

The market price, and the Mint value of coins, therefore, simply indicate their actual value as *bullion* in the first case, and their nominal value as *coin* in the second; and as long as both are allowed to be freely exported and imported from one country to another, this distinction will always exist.

Gold is, therefore, properly made our legal tender for any sum above 40*s*., and as the £5 Bank of England Note represents 5 gold sovereigns, and promises to pay that amount of gold

on demand, gold is, therefore, not only the basis of our monetary system, but also of the credit currency of the country. The importance, therefore, of making this basis as secure as it can be made, cannot be too highly estimated, and to withhold any aid which can be given to this security is a manifest departure from the avowed object and policy.

Now, it will be shown that this object and policy have been departed from by preventing silver from being brought in more fully to aid and strengthen the basis of gold, and that the credit currency of the country has thereby been greatly and injuriously restricted.

That the fundamental principle of the convertibility of the Bank of England Note into gold is established and carried out by the Act of 1844, is admitted.

Bank of England notes to the amount of £14,000,000 are guaranteed by a like amount of Government Securities pledged for their protection, and all Bank of England notes beyond that amount are secured by an equal amount of precious metal, ready to be produced at a moment's notice, and to be paid over to any holders of notes claiming their redemption.

For this credit circulation of notes there is no anxiety, long experience having established the

fact that, the amount of Bank of England notes in constant circulation is never so low as £16,000,000, and, therefore, that for this amount, at least, gold will never be demanded.

The important question, then, is, whether or not the fixed line or limit for the issue of Credit-notes be correctly drawn at £14,000,000.

If £14,000,000 were the correct limit in the year 1844, that can hardly be the correct limit in 1864, when the Trade and Expenditure of the Country are nearly doubled.

The limit must have been too high for 1844, or too low for 1864, or, more probably, too low for both periods.

But, what is the safe rule for fixing the limit?

The answer is,—the depreciation of the bank-note.

But how is that to be proved?

The answer is,—by the gold leaving the country.

And what does all this come to?

Simply this:—That the limit for the issue of Credit-notes is correctly fixed when the amount meets the requirements of the country, and the notes do not depreciate.

Now, the contrivance of the Issue Department, separate and distinct from the Banking Department, may be likened to an Automaton moved by

machinery, acting with the same regularity and with no more discretion. It provides for the safety of the Bank, but not for the requirements of the country; it prevents the Bank of England from becoming insolvent, though it does not prevent it from stopping payment; and it makes insolvent multitudes who are engaged in legitimate trade and enterprise, but are deceived by the legerdemain movements of this Automaton into looking to the Bank of England for the help which it cannot give. The Automaton, that is, the Issue Department, has no discretion, and the Banking Department has no power; and so, between the two, the honest trader and the enterprising speculator are led on to their ruin. This is called the wholesome correction of overtrading, a vague and unmeaning expression, as it is generally used.

The absurdity consists in confining the Issue Department to a mechanical movement in which there can be no discretion, the machine being so constructed that when sovereigns are dropped in, the like amount in Bank Notes is given out; and when Bank Notes are delivered in, the like amount of Sovereigns is dropped out. There might be good reason for the fixed action of this machine, if the circumstances which brought it into action were always the same, but to suppose

that the same action can be equally applicable to different circumstances is as much opposed to common sense as to all experience. For instance, when the amount of the Banking reserve is so low as to create a panic in the Money Market, the mechanical hand of the Automaton holds with inflexible grasp the bank-notes which are wanted, and that grasp can be relaxed only by gold which is not wanted. And again, when the stock of bullion is so large that the amount of Notes in circulation is redundant, suddenly the bullion is taken out to be shipped to the foreign market, and as suddenly the Notes are seized and held fast by the mechanical hand of the Automaton.

Then comes another money-panic, and in either case it is stopped only by the sudden rise in the rate of discount, and the consequent loss to the trade of the country, and the ruin of many concerned in it.

Now, in the first instance, if the banking reserve could be strengthened by a supply of notes to meet the demand; and, in the second instance, if the notes in excess of the demand were gradually withdrawn until the efflux of gold ceased, in both these instances the money-panic would be avoided.

Here is discretion required which Bank Direc-

tors may be safely entrusted to exercise, but which can never be exercised by any mechanical contrivance.

It is a great mistake to suppose that gold is or ever will be wanted in this country in any considerable quantity *as money*, as long as this country maintains its pre-eminent position in commerce and the power of obtaining gold when it is wanted.

There never has been any want of gold in this country since the resumption of Cash-payments in 1819.

The want has always been of bank-notes convertible into gold on demand.

The want of gold has never been *as money*, but as a *commodity*, or article of merchandise.

All that we have to do, and all that we can do *prudently*, to keep the needful supply of gold in this country is, to keep the price of gold as steady as we can in the general market, and that is to be done only by preserving as nearly as may be the equilibrium of value between British and Foreign Money.

As long as the Bank of England Note is the representative of the gold coin of the realm, and known to be convertible into gold on demand, the power of the Bank of England to obtain supplies of gold in the open market at all times

will be maintained by a large banking reserve, beyond the influence of capitalists and speculators, when controlled and regulated by intelligent, experienced, and impartial Directors. It may often be necessary to reduce the amount of bank-notes in circulation; but all money-panics have been increased in intensity by too great and sudden a contraction of the currency, and by the sudden and enormous rise in the rate of discount. With a large banking-reserve, supported by a large and independent real capital, and under judicious management, the ordinary bank-rate of discount would be between 2 and 3 per cent. and would rarely exceed 4 per cent., and then only under extraordinary combinations of political or natural causes.

A bad harvest causes a sudden and large importation of corn, for which, usually, the payment is in gold. At such a season the exchange of notes for gold will be at its largest. But, take the case of an abundant harvest, safely garnered. Can it be wise to require the same stock of gold to be kept in the Bank of England, when it is known that the gold will not be wanted, as when all the exchanges of corn-growing countries were enforcing remittances in gold?

Such a proceeding would be opposed to universal practice in all the ordinary transactions of

life; and any attempt to fix a reserve which shall fluctuate precisely with the fluctuating wants of the community is manifestly beyond the power of human foresight and design. All that can be wisely done is to allow an ample margin to meet present wants and probable contingencies, to be from time to time enlarged or reduced as altered times and circumstances require.

No mechanical contrivance can be a rational agent or a safe instrument for the issue of bank-notes as the currency of a country, nor was there ever any ground to justify such an absurd attempt. It is impossible to maintain that there was any such ground in the face of the fact that, the Bank of England, from the year 1819, to the year 1844, did so manage its notes that, they never suffered a moment's depreciation, and all through that period supplied this country with a perfectly convertible, safe, and confidently trusted currency of paper; and that a highly-developed currency of notes in Scotland, founded on an exceedingly slender reserve of gold, had been doing its work with uninterrupted success for more than a century, effecting an unrivalled economy of expensive coin, and intensely valued by the population.* Theorists may say that the

* "The Bank Charter Act."—*Home and Foreign Review*, No. 8, page 414 et seq.

convertibility of the Bank Note was in great danger at various times, and that the paper notes of Scotland were inadequately sustained, but the facts refute the charges. Every practical witness declares that, never, since Cash payments were resumed, has the Bank of England Note been held in less estimation than the sovereign; and that, at no time, since that period, has the public preferred gold as safer than the note. The Bank of England has often been severely pressed to supply money to claimants; but the difficulty has been as much in finding notes as gold, and the public was indifferent which of the two they carried away. The supply of Notes was insufficient to meet the demand and to keep up a suitable reserve. There never was a greater run upon the Bank than in the year 1825, and then the stoppage of the Bank was saved by the lucky discovery of one million of unburnt one pound notes. These were eagerly taken by the public, and proved to be the equal and the match of gold. Great authorities have said that the bank-note was then exposed to imminent peril; but the very reverse is the truth. The bank-note then, as now, or at any period since 1819, has never been exposed to the slightest risk of depreciation. This fact is the assurance that the solvency of the responsible issuer is a complete guarantee

for convertibility; and it is confirmed by experience, that the Bank of England and the Bank of Scotland have been found to be solvent and responsible issuers. Therefore, if the Bank Act of 1844 have made a solvent and convertible currency, the Bank of England and the Bank of Scotland have done the same before.*

If the state of the bullion in the Bank in 1825, 1847, 1857, and at other periods of alarm, be referred to, and if it be said that the note was brought to the border of the precipice, and the country within the danger of the suspension of cash payments, the inference is wrong. The true answer is, see with how little gold the note circulation of the Bank of England was and can be sustained. Amidst the terror of traders and the crash of falling firms, when panic convulsed every mind, and the strongest houses trembled for existence, when money was not to be had, discount not to be bought, the rate of interest rising, and the whole City on the verge of ruin,—one thing, and one thing only stood unshaken. Bank Directors had lent away all their deposits; the Bank reserve was gone; commerce in vain shrieked for more relief; the Bank tottered to its foundation; but its note never lost the public confidence for one instant. No one asked for gold when the note was offered.

* *Ibid.* page 415 et seq.

Why was this?

Because the note was the mere instrument of currency for the transfer of debt or commodities; and because the solvency of the note was unquestioned, the number in circulation being in no excess over the daily requirements of the public, and the note being in no way dependent on banking and its incidents, its prosperity or its disasters.

No measure, therefore, was needed to secure the convertibility of the bank-note, which was never in danger, being as secure before 1844, as it has been ever since. All the danger has arisen from the smallness of the Bank's reserve for banking and currency liabilities conjoined. The portion required for paying notes on demand was ample for that purpose, but small in comparison with that which remained, which was much too small for the banking business. It was that inadequacy which caused all the agitation and all the danger, that danger threatening the Bank in its banking affairs only. The danger was in the small reserve of notes, not in the stability of the note. If a few millions more of notes had then been held in the Banking reserve, the cry of danger would never have been heard.

Upon the ground assumed by the framers of the Act of 1844, it is clear that the line should

have been drawn at sixteen millions, and not at fourteen millions.

But why should the Banking reserve be reduced for securing the convertibility of the Bank note which has never been brought into question, even when, for this purpose, there was no reserve at all?

Under the pressure of a heavy export of gold, the stock of gold in the Issue Department has sunk to eight millions, and once to a little only above six millions. Lord Overstone thinks eight millions a very proper amount. But this is, in fact, an extravagant waste, justified neither by reasoning nor by experience.

For what, but banking purposes, is any reserve of gold required?

To secure the convertibility of the note.

Why is convertibility demanded?

To prevent the depreciation of the note:—to guard it against discredit:—to protect it from discount: to keep it on equality with gold.

But that is already done without any reserve of gold. That is effectually done by the Government guarantee. The proof was seen when the mixed banking and currency reserve stood as low as three millions, or even one million.

Since the resumption of Cash payments in 1819, the Bank of England note has never

suffered discredit or depreciation. The notes were known to be issued by a solvent body, and to circulate only in such numbers as required to satisfy the actual wants of the public for effecting their ordinary transactions, and the public were willing to hold those notes, and not to send them in for payment, as long as the number did not exceed the want, simply for their usefulness, as convenient instruments for effecting their ordinary transactions in buying and selling, instead of exchanging.

In the face of such facts and all experience, it is nothing but an idle waste of an enormous sum of public money to keep such a reserve as is kept, or any reserve, for the mere purpose of securing the convertibility of the note, which is already secure, and has never been questioned.

The danger alleged by Lord Overstone and his party is a mere bugbear to frighten those who understand little or nothing about this question, and who still associate the large combined reserve of former days, for the double purpose of banking and currency, with the single object of providing for the currency alone.

Eight millions may be a proper or even a low figure for the banker's reserve of the private corporation of the Bank of England; but it is a sheer waste in the cellars of the Bank, for

securing the convertibility of the Bank notes only.

It may be safely left to the Directors of the Bank of England, as it is left to the managers of all other Banks, to determine what amount of gold is needful to be held in reserve for their Banking purposes. Probably they will come to the conclusion that two millions of sovereigns will be an ample reserve for all their purposes.

When we see, as we have seen, that in the worst times of pressure on the Bank for gold in exchange for notes, the reserve does not sink below a million of sovereigns still at command in the Issue Department, what further evidence can be required to show that a larger reserve is mere waste? What possible end can a larger supply secure?

But if the gold in the Bank of England be exhausted? What then? Will the Bank of England be in a worse situation than any other Bank in like circumstances?

Nothing of the sort. A most efficient remedy is at hand, ready for instant application. Suppose forty millions of Consols, or other Government Securities, at the command of the Bank, and then nothing would be more easy than to sell a million or two of stock, and thus procure gold or notes from the open market.

That this country will always hold a large amount of so convenient a currency as Bank-notes is certain. But suppose every note sent in for payment. What then?

Sale of the Consols. Nothing more.

And if it took a little time to get together so large a quantity of gold; what then?

Wait a little time. Nothing more. The Bankers would not lose anything. Nobody would lose anything. This would be no money-panic. This would affect no legitimate traders. It would affect only the speculators in gold,—the conspirators against the currency,—and the loss would be on them. The Bank-note would be as sound and as safe as ever.

But this is only meeting an absurd hypothesis with an absurd and impossible example. Twenty years have now elapsed since the Issue Department of the Bank of England was entrusted with the uncontrolled management of the issue of Bank notes, beyond the amount of the credit issues, and during that period the City has been convulsed, in 1847 and 1857, by two of the severest commercial pressures on record; but never once has the bullion descended to six millions. Six millions of the original gold on which the Issue Department was opened have reposed undisturbed in the vault in which it was

then deposited. Not an ingot has been disturbed. The whole has remained in that vault, of no more use or value to mankind than when imbedded in the rocks of California or Australia. If such facts and reasoning fail to make manifest the monstrous absurdity of the present system, further reasoning is only a waste of time, and the change must be left to be effected by the necessity which time and further experience will show, and that experience will be dearly paid for.

What the People are now paying for their experience is a very simple calculation.

If £8,000,000 be a satisfactory minimum for the store of bullion, as Lord Overstone says it is; and if £2,000,000 be a satisfactory minimum, as here shown to be; the question raised is upon £6,000,000 at the least, or £300,000 a year, at 5 per cent.

But if these £6,000,000 can be sold abroad for their equivalent in food, clothing, and raw materials for the laborers of England, it is not too much to say that capital applied to average industry yields a profit greatly more than 30 per cent. in the wages to laborers, and in the several profits of the many hands through which a commodity passes before it is finally consumed. But taking it at 30 per cent. only, and on £6,000,000

only, and we have £1,800,000, as the lowest sum which, year after year the Issue Department of the Bank of England costs the People of England.

The principle of the Act of 1844, in so far as it separates currency from banking, is theoretically correct; but, in so far as it brings the whole of the currency under the fixed and immutable law of the Issue Department, is both theoretically and practically incorrect. This separation is required only for securing the convertibility of the Bank Note, and would not be required if the note were otherwise secure. With a metallic currency only, it is manifest that such separation could answer no purpose whatever. Therefore, if the Bank Note be otherwise secure, as it is proved to be, the mixed currency may be regarded as if wholly a metallic currency.

But, practically, it has been proved that the Issue Department, working by its inflexible law withdraws so large a portion of the mixed currency from circulation,—for the unnecessary purpose of securing the convertibility of the Note, already secure,—that the Banking Department of the Bank of England is left with an insufficient supply of currency for the necessary accommodation of the Trade of the country, which is thereby left open to all the inconveniences of a want of currency for ordinary transactions, and also to

the losses consequent on the fluctuations in the value of money, arising from the continual variations in the state of trade, further aggravated by speculation in the open market in gold.

These are evils which no irrational agency or fixed mechanical contrivance, like the Issue Department, can correct. The bank-note does not belong to the Banking Department, but to the Issue Department. The Bank of England has no more command over the issue of bank notes for the accommodation of trade, than any other bank in the kingdom.

The Issue Department sells bank-notes to all comers, having first sold fourteen millions to the Bank of England, and demands gold from the Bank and from all the rest of the world for any quantity of bank-notes which may be wanted.

Nothing can be more complete than this contrivance for securing the convertibility of the bank-note; but nobody has ever questioned the convertibility of the bank-note, since it has been convertible, because it has never been in danger. Therefore, this contrivance fixes the amount of bank-notes in circulation, as a substitute for gold, at £14,000,000, (now £14,650,000,) which, if the proper amount for 1844, cannot be the proper amount for 1864. All the same reasoning for fixing that amount in 1844, is equally ap-

plicable to extending the amount to £40,000,000 in 1864. Not to extending it to an irrational agency, but to the intelligent and experienced Directors of the Bank of England, who have no more personal interest in the question than any other members of the community. It is one thing to provide a safe currency, and quite another thing to provide banking accommodation.

The Issue Department effectually provides the former, as far as it goes, but as effectually prevents the latter; and the great mistake of the Act of 1844 is, in not providing a sufficiency of bank-notes for the necessary wants of the country. The Act assumes a want of gold without the means of getting it; whereas, the want has been of Bank of England notes only; because, with these notes there has never been any difficulty in getting gold in the market, since that market has been open and free to all buyers.

But it was another mistake to make the Bank of England an open market to all the world for buying and selling gold, by making it compulsory on the Bank of England to give its notes for gold. It is one thing to make it compulsory to give gold for notes, and quite another thing to make it compulsory to give notes for gold. There can be no good reason for making the Bank of England a market for gold, especially if the Mint be

open and free to all (as it professes to be, but is not), to bring their gold to be coined, free of charge, the necessary detention and loss of interest being a sufficient charge. There are many obvious reasons against such a compulsory power upon the Bank of England, which ought to be as free as any other Bank to buy gold when and where it pleases, and only when it pleases.

However excellent in theory may be the principle of the Act of 1844, in the separation of currency from banking, yet, the details of the Act, which limited the credit currency of Bank of England Notes to an amount manifestly inconsistent with that principle and the necessary wants of the country, have not been productive of a single advantage which was not enjoyed before; and the inflexible line which was then drawn has inflicted incalculable evils on the whole country. If the line for the credit issues had been so drawn as to leave an ample margin, to be dealt with by rational instead of irrational agency, and if that line had been from time to time enlarged to meet the enlarged demands of an ever increasing population and trade, nothing can be imagined more perfect for its objects than the Bank Act of 1844. But confined as it is in its operation by inflexible rules, nothing could be more fatal than this enactment has been to all benefit from the principle thus carried out.

The folly of assuming that the money-market of this country can be always wisely regulated by rules as unyielding as the movements of a machine, has been shown by the frequent and disastrous failures.

Nothing can be more unwise than to lay down inflexible rules for government on any subject, and, of all subjects, this is the least suitable for such an attempt.

If, in former days, the Directors of the Bank of England sometimes acted injudiciously, as Bankers, banking is now much better understood, and it were better to take the chance of their being wiser now, than to submit the direction of the Bank of England wholly to irrational agency. It is a great cost to the country to pay £1,800,000 a year for a little more theoretical nicety, and a great deal less of practical benefit in the management of our bank-note issues.

The public would soon learn that trade and discount have no more connection with the issue of notes from the Bank of England, than of sovereigns from the Royal Mint, and they would soon learn to care as little for the number issued of the one as of the other, when they saw an ample reserve of notes in the Bank. When they became accustomed to look upon the issue of bank-notes as in no respect different from the issue of sove-

reigns, they would cease to feel any uneasiness about the necessary supplies of either or both, or about the convertibility of the note, which was fully protected by securities. These securities, unlike the bullion in the Bank-cellar, involve no loss of capital, but yield their dividends to whomsoever allotted.

With respect to the restoration of the One Pound Note, that is a question on which some difference of opinion exists. There seems, however, to be no good reason for returning to One Pound Notes, and the additional facility thereby given to forgery, seems to be a strong reason for discontinuing them. But Lord Overstone gives another reason deserving of attention in the following remark: "As a general principle, I think that the system established in England is unquestionably the right one; and that it is desirable that the smaller monies of the country should be in the metallic form, and principally for this very obvious reason, that alarm and panic are liable to arise amongst those classes where the intelligence and education are the least."

It is a common but erroneous belief that, a greater amount of gold in the Issue Department implies an increased reserve in the Banking Department of the Bank of England, and, therefore, a larger fund for the accommodation of trade.

This is a common notion even amongst generally well-informed and commercial men. But this is a mistake. The gold in the Issue Department does not belong to the Bank of England, but to the holders of Bank of England Notes; and the amount of gold in the Issue Department may be large or small without affecting in the smallest degree the banking reserve of the Bank of England. No one ever heard it said that the amount of sovereigns in circulation strengthened the reserve of the Banking Department, but there would be as much reason for saying this, as for saying that the notes, or the gold which is held in close pawn for the notes, can add the smallest fraction to the Bank reserve. Such a mistake as this shows that the Bank Act of 1844 is not understood, the fact being that the Issue Department is nothing but a factory, separate and distinct from the Bank of England, for the making and selling of Bank of England Notes, not exclusively for the Bank of England, but for all Banks, all firms, and all persons, who come to buy, or to exchange gold for notes, or to sell gold as well as notes. The gold is the stock-in-trade, and whether the stock be large or small concerns only the Issue Department, and not the Bank of England, any more than any private firm, in which relation the Bank of England stands to

the Issue Department. If the stock of gold be larger than is wanted, the surplus treasure must be consigned to the cellar. This in no way concerns the Bank of England, further than the loss of so much capital to the country. Merchants and Traders do not so deal with their capitals. If they did it would be much the same thing. All these are private affairs, though public losses.

There is another common delusion, which invests gold with a mysterious and peculiar importance, as if it were distinguished from all other commodities by some qualities too mystical to be intelligibly described. Gold is but one of the infinite number of commodities, subject to the same laws, obeying the same influences, bought, sold, and exchanged by precisely the same rules. These commodities have all their peculiar usefulness when used, and, though more or less costly to buy, may be equally useful, when used. But of all these, there is not one which is of the smallest use, unless it be used. Now, it seems as if gold were considered by many to be an exception to this general rule, and that its chief use consisted in not using it at all.

The six or eight millions of sovereigns and uncoined gold in the Bank cellar are considered to be doing their good work best in the dark, and out of human sight or touch!

But why should this commodity be the only exception to the universal law of supply and demand?

Is iron less useful than gold?

But who advocates the hoarding of iron and keeping it unemployed?

What is the ground of fear that the supply of gold in England will ever be less than the demand?

English exports, or English exported manufactures, far exceed the value of the foreign raw materials of which they are composed; and this means that foreign countries are always indebted to England. If this be so,—and nobody doubts it,—where is the doubt about our getting gold when we want it? The greater difficulty is in getting rid of it, when we have got it.

If eight millions of sovereigns be required by the Bank of England for cashing its notes presented for payment, let the Bank have them; but it is quite enough for the Bank to get them when they are called for; they never have been called for during these last twenty years, and never were wanted, or, at least, never would have been wanted if notes payable in gold had been supplied. But if two millions be enough to meet all wants, why keep seven or eight millions idle and unproductive?

" This is the question to be answered.

Another common delusion is, that the Issue Department makes money cheaper or dearer as the circulation expands or contracts, and thereby steadies prices, checks speculation, and furnishes a solid basis for the calculations of the legitimate trader. This assumes that sovereigns and bank-notes alone form, what is called, " the circulation," and that these alone are the regulators of prices.

Here again is fiction upon fiction.

Where have these philosophers learned that coin and bank-notes constitute the currency of the country, and that these are the regulators of prices?

What is their idea of currency and its functions?

They seem to exclude from their idea all cheques, bills, and book-credit, and yet these answer the same purpose as coin and bank-notes. When by the withdrawal of gold for exportation the number of bank-notes in circulation is reduced, the public are compelled to use more cheques, bills, and book-credit; and if bank-notes were extinguished altogether, the only effect would be a larger use of the substitutes.

They say that prices rise when notes and sovereigns are abundant, and fall when these are

deficient; and they say that, the Issue Department controls the circulation; therefore the Issue Department controls or regulates prices. But this is an unfounded theory, contradicted by all experience.

The Issue Department has no control whatever over the circulation, which is entirely under the control of the public, who may take as many or as few notes in exchange for gold as they please; and the prices of commodities depend on the supply and demand.

If the doctrine were true that, the Issue Department controlled the circulation, and also controlled prices, then the one doctrine would destroy the other.

But the doctrine being altogether wrong, the conclusions are wrong.

Supply and demand are always more or less affected by the money-market, which affects credit, and credit affects prices; but the solvency of the bank-note not being in question does not affect credit. That the Issue Department does very injuriously affect credit by restricting the issue of notes within too narrow limits has been too frequently proved by experience; but in no other way does this affect prices than by affecting supply and demand.

It is a fact not generally known, or, at least,

the consequences are not generally understood, that more gold is imported into this country than the country has any use for, and if the surplus quantity be not immediately exported, it is deposited in the vaults of the Issue Department. For the buried gold vouchers are given in the form of bank-notes, and these, if not wanted, fall into the common reservoir of the Banking Department, and form its reserve. The bullion and the notes are then simply inoperative, waiting till wanted; or, the bullion is sent abroad, and notes for the same amount are cancelled.

Such being the simple facts, it is clear that, the Issue Department is merely a safe and convenient place for depositing the gold till it is wanted, and that the notes, which are issued as receipts for the gold, are but the vouchers for the quantity so deposited. Now, it is manifest that, the Issue Department does not keep these notes out of circulation, because they have never been in circulation.

The fluctuations, therefore, in the reserve of the Issue Department, to which so much importance is attached, simply and solely indicate the movements in the market of gold, and as the balance of trade in favour of England is almost always causing a flow of gold into England, there can be no ground for alarm with regard to a supply

of gold sufficient for all the purposes for which it can be required in this country.

In times of commercial difficulty the alarm is not for gold, but notes.

For nine-tenths of all the great commercial transactions of this country bills and cheques do the work, and gold and notes are little more than small change for the retail trade and payment of wages. For proof of this it is only necessary to enquire how the wholesale dealers make their payments, and how the clearing-houses settle them.

These enquiries will dispel many of the delusions about currency, by showing how small a portion of the currency of this country consists of gold and notes.

When this is shown and understood, but not before, the monstrous proposition of Lord Overstone, before the Select Committee of the House of Commons, on the 7th of July, 1857, will be fully exposed. Speaking of the Act of 1844, he said:—"By this means effectual security is obtained that the paper money in the country shall at all times conform to what would be the amount of a metallic circulation. Of this there can be no doubt. The paper money of the country, under the Act of 1844, conforms strictly in amount and consequent value to a metallic cir-

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culation; those fluctuations in amount, and those only, which would occur under a present mixed circulation of gold and paper, as regulated by the Act of 1844."

Would Jones Loyd & Co. confirm this proposition? Would they say that, if Bank of England Notes were withdrawn, they would use as many sovereigns in their business as they now use notes,—sovereigns for notes, pound for pound?

In that case, a large establishment of carts and horses and trusty porters would be required for the carriage of the precious material, assuming that it would be found in sufficient quantity. But then, as now, the principal instrument of transfer would be cheques and bills, which rest on no such costly foundation as gold, but on the solvency of the issuer. It would be sufficient for him to get the gold when it was wanted; in the meantime his cheque or bill would fill the place of the bank-note; and if bank-notes were withdrawn, cheques and bills would fill their place, not gold.

But Bank of England Notes, carrying with them the stronger evidence of solvency, are, for general use, the more convenient and safer means of transfer than the cheque or bill, and to subject the more convenient instruments to the risk of scarcity when most wanted, by making their

numbers dependent on the demand for gold, is to subject those who want the notes and cannot get them to the risk of ruin, for the benefit of those who have been able to hoard the notes, or the gold which can command them.

This is an inevitable consequence of the Bank Act of 1844.

## CHAPTER VIII.

### THE SILVER COINAGE.

It will be convenient here to consider some of the principal changes which have been made in the Silver Coinage, as affecting the money of the country.

In the year 1816, the old silver standard of coinage was abolished, and the pound weight of silver, which had been coined into 62*s.*, was then coined into 66*s.*, of which 4*s.* were taken for seignorage. The effect of this change was to reduce the pound sterling, or 20*s.*, from 1,718,709 grains of fine silver, to 1,614,545 grains.

The Act which limited silver as a legal tender to £25 was repealed, and the legal tender was reduced to 40*s.*

By the Act of 1816, 56 Geo. III. cap. 68, silver, which was a universal medium of transfer, was almost prohibited in England. The Mint was closed against the Public, and the coinage of silver money has been, since that time, wholly in the hands of the Government.

The limitation of the silver coinage, as a legal tender, to 40*s.* was judicious; but it is difficult to discover any principle in restricting the quantity of the silver coinage, which would be always regulated to the want by the limitation of the legal tender.

It appears, from a Memorandum issued in 1819, that the Silver Coinage Act of 1816 was part of the scheme by which the Crown usurped the right of regulating the *quantity* of silver money that should be in circulation, because it was considered that, "while the coinage of silver is in the hands of the Government, they have the power of regulating the amount, so as neither to be in excess or deficiency." But, this is a power quite unnecessary to be in the hands of the Government, as more silver would not be coined than is wanted.

The coinage of the money of the realm is properly a Royal Prerogative, but to restrict the quantity is not. The Royal Mint should be open to the coinage of silver as well as gold free of charge, and our standard, being in gold, has nothing to do with this question.

As this Memorandum is a document remarkable chiefly for its reasoning, the whole of it is here given.

## Memorandum upon the Issues of the Silver Coinage.

"Under the authority of the 56th Geo. III. cap. 68, a new silver coinage was prepared, and by a proclamation, dated the 29th day of January, 1817, all the old silver coin of the realm was exchanged throughout Great Britain; this operation was performed by a simultaneous arrangement, and the whole exchange was effected in a fortnight, with a very few exceptions in distant and obscure places, where a few days further time was allowed to the inhabitants to bring in their old coin. The silver coin in the Isle of Man, and Guernsey, and Jersey, was in like manner also exchanged.

"Some silver, which had been in circulation and appeared to be French coin, was received at the Mint at the market price of the standard silver it contained; and some heavy old coin, which had been hoarded, was likewise exchanged there for new coin. Three months were allowed for these operations.

"The amount of silver coinage in Great Britain, previous to the new coinage, was estimated at the Mint to be about £5,000,000; £2,500,000 of which was supposed to be in old coin, and the remainder in Bank tokens; the

'estimated amount of the coin appears to have been nearly correct; but what Bank tokens were in circulation it has not been possible for the Mint to determine.

"The amount of coin issued in exchange was £2,600,000. 1*s.* 2*d.*, the amount coined from the old silver coin £2,007,902. 16*s.*, amount coined from bullion, since purchased from the Bank, £516,684; total of new silver coinage issued to the present day, £5,124,636. 17*s.* 2*d.*

"The new coin thus issued being £5,124,636. 17*s.* 2*d.*, and some of the distant parts of the country, and some of the manufacturing districts being still desirous of more silver coin for the accommodation of exchange in their internal traffic, it is probable that the amount of Bank tokens outstanding was more than the Mint calculated; it is certain that the sum already coined is not sufficient for the convenience of the country.

"The silver coined from the bullion furnished by the Bank since the old silver coin has been exhausted, has been lodged in the Bank on account of the Government; and it is distributed to the bankers of London, that it may be circulated throughout the country for the accommodation of the public, and in some instances large sums have been issued for particular dis-

tricts. At present a supply of about £35,000 a week is furnished by the Mint for these purposes, and it is proposed to continue to coin at this rate till the Government have ascertained that there is no want of change in the country. This gradual supply seems to be sufficient to prevent any inconvenience to the public.

"The Mint, having constant communication with the Bank and the London Bankers, is enabled to afford information on the state of the silver currency to the Lords of the Treasury; and their Lordships, being also in possession of other means of knowing the wants of the country, regulate the issues in such manner as they conceive will best afford the necessary accommodation throughout the kingdom, 'for the facility of exchange and commerce,' without throwing into circulation any superabundance of silver. The silver coinage can never, therefore, while it is preserved upon its present footing, exceed the amount which the Government, from the best information they can procure, conceive to be necessary for the accommodation of the public.

"The 11th and 12th sections of the 56 Geo. III. cap. 68, clearly point out the principle upon which the silver coinage was to be, and has been, issued. It is merely a coin of exchange for the convenience of the country, and not being a legal

tender for more than the very limited amount of forty shillings in any one payment, cannot be the standard of value, and is, therefore, not liable to produce any difficulties or inconveniences that were felt when the coins of the two precious metals were received in payment to an unlimited extent, and were both of the intrinsic value of their denomination.

"The limitation of the legal tender of the silver coin, and the lowering of the value of it by the deduction of the seignorage of four shillings in the pound troy, place it precisely on the same footing in our circulation, in point of principle, with our copper coins. They are a legal tender as far as twelve-pence in any one payment, and they are at present about 72 per cent. above their intrinsic value, which seignorage, however, produces no mischief, as the coinage of copper, like that of silver, is entirely in the hands of the Government. The silver coins are a legal tender to forty shillings, and the seignorage taken from them is about 6 per cent. Both coins serve for change, and change only, and can never be brought into competition with, or used for the purchase of, the gold coins. This is the view taken of them by the late Lord Liverpool and Dr. Adam Smith, who both recommended the system of silver coinage as established by this Act. Dr. Smith

says, the legal tender of the silver coin should be limited to change of a guinea; the Act limits it to the change of a double sovereign, it having been in contemplation, when the law passed, to coin pieces of that denomination of the value of forty shillings. By this Act, the Crown, by proclamation, may empower the subject to bring silver bullion to the Mint, to be coined at the rate of sixty-six shillings to the pound Troy, *sixty-two* shillings to be delivered to him, and four shillings to be retained as seignorage.

"No such Proclamation has been issued, and the coinage of silver has been entirely in the hands of the Government; they have the power of regulating the amount, so as neither to be in excess or deficiency.

"The effect of deterioration or debasement of the silver coin limited as it is, as a legal tender, to forty shillings, is to ensure its remaining in circulation until the price of standard silver in the market rises beyond 5*s*. 6*d*. an ounce. Until such a rise, there can be no inducement to melt the silver coin, or sell it as bullion; and even if the price of silver bullion should rise so high as to make it the interest of holders to dispose of it as bullion, it would not be possible for them to exchange it for gold coin, the limitation in the tender preventing them; nor would they have an opportu-

nity of collecting any large quantities, as the Government have it in their power to keep the supply of silver coin within such limits as to render it impossible that the public should part with their change, even if they could, by melting it and selling it as bullion, realize a small profit.

"The principle upon which the silver coinage is carried on, makes no difference whatever in the price of silver bullion in the market, its price will be regulated by the proportion of gold to silver in the market; and were the Mint to be thrown open by Proclamation to the public for the silver coinage, no profit could accrue to any individual bringing silver bullion to the Mint, unless he bought it at a lower rate than 5*s.* 2*d.* per ounce, the old Mint price, as he would receive but 62*s.* for his pound of silver, 4*s.* being retained out of the 66*s.* by Government as a seignorage. He would be neither better nor worse than he was under the old system. There is, in fact, now no Mint price of silver governing that of the market; its market price will vary in proportion to the quantity of silver which a given quantity of gold will purchase; for example, if one ounce of gold purchase 150,725 ounces of standard silver, the market price of silver will be 5*s.* 2*d.* per ounce; but if one ounce of gold will purchase only 14 ounces of standard silver, the market price ounce,

at that proportion, will be 5*s*. 6¾*d*. The same thing takes place in the price of copper. The Mint price of copper is 2*s*. per pound avoirdupois; that is, the pound is cut into 24 pence. But the market price of copper, in cakes, or in bullion, varies from £112 to £168 per ton, or from 1*s*. to 1*s*. 6*d*. per pound. The market price of copper at present is £130 per ton.

"As there is no silver coin of the realm recognised as a standard, there cannot, therefore, be any effect produced upon the relative prices of gold and silver bullion in the market by the present mode of coining and issuing our silver coins; those prices must be affected by other causes, in fact the relative proportions of the two metals in the market for the three years which have elapsed since the Coinage Act passed have kept to very near the old Mint proportions.

"The averages are as follows:—

"In 1817, 15·270 ounces of silver = 1 ounce of gold, which gives the price of silver at 5*s*. 1*d*. per ounce.

"1818, 15·095 ounces, which gives the price of silver at 5*s*. 1¾*d*. per ounce.

"1819, 14·8674 „ „ 5*s*. 2¾*d*.

"Within the last six months the proportion of silver has risen (and from the last quotation of the price of gold it was 14·909) but this may be

accounted for from the great demand for dollars for the East Indies, a circumstance of frequent occurrence in the history of our currency."

"W. W. POLE,
"Master and Worker of
"May 3rd, 1819." "His Majesty's Mint.

The Act of 1816, therefore, constituted a new era in the history of our monetary system; for it placed our silver coinage entirely in the hands of the Government, not only to superintend the management, but also to regulate the *quantity*, a privilege which had for ages been enjoyed by the people, as their constitutional right.

By this Act the country was placed, in regard to its circulating medium, under the two-fold monopoly of the Government and the Bank of England; and the legal tender of the country, in which all the principal money transactions are carried on, was confined within the narrowest possible limits. By what right the Government took upon itself to regulate and control the *quantity* of money in circulation, has never been shown; and, as regards the silver coinage, the pretence of keeping out of circulation a *superabundance of silver*, is a sheer absurdity, as a *superabundance* never could remain in circulation.

This Memorandum says that, the silver coinage

"is merely a coin of exchange, for the *convenience of the country,*" and that seems to be the strongest reason for leaving the country to regulate the amount.

The Memorandum also says that, both the silver and copper coins "serve for change, and change only, and can never be brought into competition with, or used for the purchase of the gold coins." This is a most extraordinary assertion, and the more strange as immediately following the declaration that, the silver money was issued as "a coin of exchange for the convenience of the country." If 20*s.* be given for a sovereign, a sovereign may be considered the equivalent in exchange for the 20*s.*; therefore, each possesses the same power of purchasing commodities in the market; and, therefore, there can be no reason why silver should not purchase gold, as well as any other commodity, at the market price. To say, therefore, that the silver coinage will not purchase gold, when it is admitted that the one will exchange for the other, is absurd; and there is nothing to prohibit any one from making this exchange from day to day, and thus obtaining gold or gold coins, if he please.

The Act of 1816, therefore injuriously discourages the importation of silver into this country, which would otherwise be the best market in the

world for silver, as it is for gold; and the Act of 1844, which limits the proportion of silver to one-fourth of gold in the Issue Department of the Bank of England, and thereby narrows the basis of the Bank of England note circulation, is another and serious injury to the country,

It is impossible to discover on what principle the Government has assumed to itself the power of regulating and controlling the money of the country, by this direct interference with the silver coinage,—and thereby contracting the amount of bank-notes in circulation. This is an infringement of the rights of the British people, for which there is no sanction in history, and was unknown until the introduction of the system of paper-money, now monopolised by the Bank of England, that paper-money being made equal in value to the coin of the realm. No other Government but our own has ever declared that a "superabundance" of silver money was an evil to be remedied by legislation.

The closing of the Mint against the public, for the purpose of vesting a monopoly of the coinage in the Government, was a most injurious and unjustifiable infringement of an ancient and constitutional right in the people, and could have been permitted only under a mistaken view of policy. So far from this being the true policy it

is exactly the reverse, the true policy of every country being to encourage by every means the importation of all marketable commodities, of which the precious metals have always been the least hazardous, because always the most marketable and least liable to fluctuations in price. That such was the policy of former Governments, before the introduction of bank-notes, may be seen in the statutes on record, showing that every encouragement was then given to the public to carry gold and silver to the Royal Mint to be coined, nor was the prerogative of the Crown then used for any other purpose than as a guarantee for the genuineness of the coinage, the *quantity* being left free and uncontrolled in the hands of the public.

The Coinage Act of 1816 was, therefore, a great wrong to the whole British Nation, and, until this law be repealed our monetary system cannot be placed on a perfectly sound basis. What would be said if the Government undertook to regulate by legislation the quantity of cotton necessary to supply the wants of Manchester, the wool for Leeds, the flax for Belfast, or the supply of fruits and vegetables to Covent Garden Market, or of merchandise in Mincing Lane,—that there may be neither an excessnor a deficiency? How much rather, then, should

the country be free to regulate the amount of money by which its entire transactions are carried on, than to commit it to the keeping of a few gentlemen at the Treasury and at Tower Hill.

It will be said that gold and silver do not come under the same principles as other commodities, and that some restrictions should be placed upon money to prevent rash and ruinous speculations. But such reasoning as this can have no weight when applied to metallic money What country has ever been known to have too much of it? Instances of its mis-use are numerous; but no instance of its superabundance has ever been known.

The Act of 1816 is only a part of the policy carried out in the Act of 1844, the 3rd section of which limits the amount of silver bullion in the Issue Department to *one-fourth* part of the gold coin and bullion. Here is the same principle at work as in the Act of 1816.

Every possible contrivance is resorted to for limiting the real money of the country to the narrow basis of gold, and when that is diminished below a certain point the whole superstructure of credit falls.

The principal objections, therefore, to the Act of 1816 are, that the Government has taken to itself wholly a right which belonged wholly to

the public; and that it has placed the credit of the country upon a narrower and less secure foundation, by exercising a power, in connection with the Bank of England, by which the basis of that credit must always be subject to more disturbing, if not dangerous, fluctuations than it otherwise would be.

By the 9th section of the Act of 1816, the power of taking silver coin, plate, or bullion, to the Mint, to be coined into money, was prohibited, except by a Proclamation from the Crown, restoring the privilege; but as that proclamation has never been made, it may be fairly assumed that, it was never the intention of the Government that the privilege should be restored.

When the Government took upon itself to regulate the amount of the silver coinage, so that there might be neither "an excess nor a deficiency," it ought to have shown how it would undertake to guarantee a sufficiency. Instead of this, it is in evidence before the Committee appointed to examine into this subject, that the Mint never coined any silver money, except when it could make a profit upon the purchases of silver bullion. Therefore, the supply was never regulated to meet the demands of an increasing population, or to rectify foreign exchanges, or to meet an increase in the price of commodities, or

in any way by which it could be brought in to meet the demands or necessities of the public.

The arrangements which are at present in operation at the Mint, with regard to the silver coinage of the country are, in plain language, part of the machinery for confining the control of the money of the country in the Bank of England and the Government.

It is evident that, all the reasoning in the Memorandum to show that the price of silver is regulated by the proportion of gold to silver in the market, and that, if the Mint were thrown open to the public for the silver coinage no profit could accrue to any individual bringing silver bullion to the Mint to be coined, unless he bought it at a lower rate than 5*s.* 2*d.* per ounce, has nothing to do with the question of the people's right, and is no argument in defence of the Government monopoly; nor is it any argument for confining the basis of credit to gold, although gold be the only legal tender above forty shillings.

If the argument be used to prove that such an increase in the metallic currency of the country might enlarge the note currency of the Bank of England to a dangerous extent, by carrying it beyond the means of convertibility into gold on demand, this is a mere fallacy, though on this fallacy it is clear that successive Governments have pro-

ceeded in establishing our present system, and that the Act of 1816 is as much a part of the restrictive system of our money laws, as either the Act of 1819, or 1844, and that the theory which they intended to act upon would not have been completely carried out if either of these legislative enactments had been omitted.

Those who have entertained the notion of maintaining the relative value between gold and silver, which is a mere delusion, have in fact sacrificed the permanent interests of the country to maintain the present monopoly; instead of bringing into more general use one of the precious metals, which is universally recognised amongst all nations as a circulating medium, in aid of the internal and external commerce of the Kingdom, and as a means of extending the basis of our paper currency, of which long experience has proved that, there is always great abundance when not wanted, and great scarcity when most in demand. This is the inevitable result of attempting to regulate by an artificial law what can be only self-regulating, by the natural law of supply and demand. Every money-panic which has arisen to convulse our trade and commerce, may be traced to these legislative enactments for regulating and controlling the money, and through the money, the credit of the country.

Some of the foregoing remarks on the silver coinage have been taken from an excellent Article on the subject in the Supplement to the "Bankers' Circular" for the 28th April, 1855, a very useful weekly periodical, then conducted with great ability by the Proprietor and Editor, Mr. Henry Ayres, and which deserved better support than it received from the Bankers in particular, and the Public in general.

Those who desire further information will do well to refer to the evidence taken by the Committee in 1819 on this subject, and particularly to the evidence of Mr. Mushett, one of the officers at the Mint, who enters with great minuteness into the question of the silver coinage, and furnishes very striking illustrations of the fallacy of his own reasoning for confining the circulation of the Bank of England Notes to the basis of gold. It is unnecessary here to pursue further this important branch of the inquiry, as it will be reverted to in the subsequent pages.

Thus, in the year 1816, an Act was passed, which abrogated the whole of our ancient laws relating to the Silver Coinage, and converted into a Government department, under Government control, the Mint, which had been for ages a National Institution, open to the public for free coinage, under certain regulations. The coinage

of silver was no longer to be open to the public and free, but was to be regulated by Government both as to *quantity* and quality, through the medium of the Bank of England and the Treasury.

The old standard, introduced in Queen Elizabeth's time, of coining the troy pound weight into 62*s.*, was repealed, and a new standard of coining it into 66*s.* was substituted; the Mint authorities retaining 4*s.* on each pound as seignorage, or rather more than 6 per cent., the standard of fineness remaining the same. Silver by tale, which had hitherto been a *legal tender* in all transactions up to £25, was reduced to 40*s.*, and gold was made the only legal tender for sums exceeding that amount.

The Act, therefore, completely changed two of the fundamental principles of the English monetary system; *firstly*, by restricting the *quantity* of silver money by legislative interference; and *secondly*, by making a scarcer metal, and one more difficult to be obtained, the only legitimate metallic medium of transfer beyond 40*s.*, and, subsequently made, the only basis of our Bank-note circulation.

By a reference to the Coinage Acts of this country down to the passing of the Act of 1816, it will be seen that every facility was given for

the "*encouragement*" of coining monies; while this Act prohibited the people from exercising *one of their most ancient and most undoubted privileges.*

England is the only nation where the people have not free access to the Mint, at all reasonable times, for the purpose of converting bullion into the legal coin of the realm.

However politic it may have been to alter the standard *weight* of the silver coinage (an alteration which had been advocated by the highest authorities of former times) the closing of the Mint against the Public, and thereby restricting the *quantity* of the silver coinage, was an abuse of Parliamentary power that no eminent authority has ever sanctioned, and no argument has ever justified. For this great wrong and injury to the country there is only one remedy, and that is in the repeal of the Silver Coinage Act of 1816.

The following is a brief Epitome of the Act 56 Geo. III. c. 68. June, 1816:

Sect. 1. 18 Car. II. c. 5, as to coining silver brought to the Mint without charge, repealed.

Sect. 2. 7 & 8 Will. III. c. 1, as to weight and fineness of silver coin, under Mint Indenture, and so much of 14 Geo. III. c. 42, as requires 62*s.* to the pound troy of silver, repealed.

Sect. 3. 38 Geo. III. c. 59, prohibiting silver coinage, repealed.

Sect. 4. The pound troy of standard silver, eleven ounces two pennyweights fine, etc., may be coined into 66*s*.

Sect. 5. Old silver coin of the realm brought to the Mint, may be exchanged for its full nominal value in new silver coin.

Sect. 6. Treasury may appoint persons to receive old silver coin, and exchange the same for new, at any places throughout the kingdom.

Sect. 7. After the end of the period appointed for receiving old coin of the realm at the Mint, all old coin deficient in value may be cut by the person to whom it is tendered.

Sect. 8. Provision for the loss arising from the deficiency, and recoinage of the silver coin.

Sect. 9. After a day to be appointed by Proclamation, any person may bring silver coin and bullion to the Mint, to be coined at the rate of 66*s*. per pound troy of standard silver, eleven ounces two pennyweights fine, etc., of which 42*s*. per pound shall be delivered to the party bringing in the bullion, and 4*s*. retained for assaying, loss, and coinage.

Sect. 10. Such sum of 4*s*. per pound shall be applied to the expense of coinage, and the surplus (if any) carried to the Consolidated fund.

Sect. 11. Gold coin declared the only legal tender, being of the weight and fineness of the Mint Indenture.

Sect. 12. 14 Geo. III. c. 42, making silver a tender to £25, and afterwards by weight, repealed after a day to be named in the King's Proclamation for that purpose. No tender of silver coin legal beyond 40*s*.

Sect. 13. Current gold coin shall not be received or paid for more or less than its value, according to its denomination, under the penalty of imprisonment for six months.

Sect. 14. When persons who have been convicted shall be again guilty, the Clerk of the Peace shall certify former conviction.

Sect. 15. Indictments not to be traversed.

Sect. 16. On prosecution it shall not be necessary to prove money lawful.

Sect. 17. All other Acts relating to silver coin extended to this Act.

Sect. 18. Act not to affect payments in Bank of England Notes.

Sect. 19. This Act not to affect payments of revenue in Ireland, in Irish Bank tokens.

It is a fact worth notice that, from 1803 to 1809, the price of gold under the Restriction Act was maintained at £4 per ounce.

## CHAPTER IX.

### THE BANK OF ENGLAND: AND THE DISORGANISATION OF CREDIT.

It is a remarkable fact that the law, regulating the money of the greatest commercial country in the world, is to be found only in the Charter of a Banking Company.

But this is an anomaly which time seems to have reconciled us to, nor is it very material, if it do not confound things which ought to be kept distinct. But is the distinction so clear as it ought to be?

Many persons, perhaps, are not aware that, the Bank of England, as a Banking Company, in no respect differs from any other Bank.

The fact, that certain special privileges have been attached by the State to the Bank of England, and to no other Bank, in no respect makes the Bank of England different from any other Bank, as regards Banking. Those special and exclusive privileges were conferred professedly for public convenience.

By the Bank Charter Act of 1844, the Bank of England has the privilege of issuing its notes to the amount of £14,000,000 on Government Securities.

This sum was made up of £11,015,100, the Government Debt to the Bank, and £2,984,900, for other claims, making together £14,000,000, which amount, by the lapsed issues of private banks in December, 1855, was increased to £14,475,000, and subsequently by a further addition to £14,650,000, which is the present amount. Thus, the whole capital of the Bank of England is lent to the Government, and to that extent the Bank is authorised to issue notes, *theoretically* founded on gold, but *really* on the security of the State.

Any notes to be issued in excess of this sum of £14,650,000, must be represented by gold and silver coin and bullion, the proportion of silver to be only *one-fourth* of the whole amount of the metallic security.

The Notes held in reserve, in the Banking Department, must always be equal to the difference between the amount of Notes in circulation, or held by the Public, and the sum of the Credit Issues added to the Bullion in the Issue Department.

By this means it was proposed, by the Act of

1844, to secure the convertibility of the Bank of England Note, an object manifestly accomplished.

The Credit Issue of Bank of England Notes to the amount of £14,650,000, is a simple contrivance to save the Government from paying an old debt to the Bank of England. It would have been more simple and much wiser if the Government had paid its debt, and left the Bank in possession of its capital.

The other arrangements between the Government and the Bank of England are matters merely of convenience, for insuring the punctual payment, half-yearly, of the dividends to the Creditors of the Public Debt. As everybody is perfectly well satisfied with that part of the arrangement, nothing further need be said about it.

The result of all this is, that the Bank of England has no actual capital whatever in possession, but only a claim upon the Government for it; and the effect of all this is that, if the Bank should have occasion to call in its capital for the payment of its notes, issued on the credit of this capital, the Government would be bound to meet the call, and to pay it in Bank of England Notes, or in gold coin; or the Bank would have to sell the Government Securities and buy gold to answer the call.

But, for these credit issues there is no danger to the Bank of England or to the Government.

Nor can there be any difficulty in the Government paying this debt to the Bank of England.

Since the year 1844, to the present time, the total amount of Bank-notes in circulation has never been so low as £30,000,000, and the present average may be taken at about £40,000,000.

During the same time, the amount of Bank of England notes in circulation has never been so low as £16,000,000, and the present average may be taken at £21,000,000.

During the same time, the amount of Bank-notes in circulation in Ireland has never been so low as £3,000,000, and the present average may be taken at about £5,000,000.

During the same time, the amount of Bank-notes in circulation in Scotland has never been so low as £2,000,000, and the present average may be taken at about £4,000,000.

Thus, it is evident that, if the Bank of England had issued £16,000,000, instead of £14,000,000, of its Notes on Government Securities, the whole of the £16,000,000 would have remained in constant circulation as safely as the £14,000,000 has remained in constant circulation.

It is also evident, that, as the issue of the Country Banks diminished, the credit issues

might be safely increased in the same proportion.

The lowest amount of Bank of England notes in circulation for the last 20 years and upwards was £16,736,000, on the 16th December, 1848, and the total amount of bank-notes in circulation in the United Kingdom on that day was £30,872,782.

The total amount of gold coin and bullion in the Bank of England on that day was £14,790,000, and the total amount of coin and bullion held by the Bank of England, and the Scotch and Irish Banks on the same day was £17,444,857, and the *minimum* bank-rate of discount was 3 per cent.

The highest amount of Bank of England notes in circulation, for the last 20 years and upwards was £25,075,000, on the 6th August, 1853; and the total amount of Bank-notes in circulation in the United Kingdom on the same day was £40,684,940.

The total amount of gold coin and bullion in the Bank of England on the same day was £17,757,000; and the *minimum* Bank-rate of discount was 3½ per cent.

The ordinary amount of coin and bullion in the Bank of England may be taken at about £15,000,000, the average amount of bullion in

the Bank of England from the year, 1849, to the year, 1863, both years inclusive, being £15,171,902.

The ordinary amount of Bank of England Notes in circulation may be taken at £21,000,000, the average amount of Bank of England notes in circulation from the year, 1849, to the year, 1863, both years inclusive, being £20,970,054.

The ordinary amount of the whole Bank-note circulation of the United Kingdom may be taken at about £40,000,000.

The lowest amount of gold and silver coin and bullion in the Bank of England, since the year 1844, was £6,745,354, on the 25th October, 1847, the period of the great money-panic.

The *minimum* Bank-rate of interest then was 8 per cent.

The following Table will show the fluctuations in the Bank of England *minimum* rate of discount from the year 1857 to the year 1864, both years inclusive.

FLUCTUATIONS IN THE BANK OF ENGLAND MINIMUM RATE OF DISCOUNT, 1857 TO 1864.

| 1857. | | 1858. | | 1859. | | 1860. | | 1861. | | 1862. | | 1863. | | 1864. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Date. | Rate per Cent. | Date. | Rate per Cent. | Date. | Rate per Cent. | Date. | Rate per Cent. | Date. | Rate per Cent. | Date. | Rate per Cent. | Date. | Rate per Cent. | Date. | Rate per Cent. |
| Jan. 1 | 6 | Jan. 7 | 6 | April 20 | 3½ | Jan. 19 | 3 | Jan. 7 | 7 | Jan. 9 | 2½ | Jan. 16 | 4 | Jan. 20 | 8 |
| April 2 | 6½ | ,, 14 | 5 | May 5 | 4½ | ,, 31 | 4 | Feb. 14 | 8 | May 22 | 3 | ,, 28 | 5 | Feb. 11 | 7 |
| June 18 | 6 | ,, 28 | 4 | June 2 | 3½ | Mar. 29 | 4½ | Mar. 21 | 7 | July 10 | 2½ | Feb. 18 | 4 | ,, 25 | 6 |
| July 16 | 5½ | Feb. 4 | 3½ | ,, 9 | 3 | April 12 | 5 | April 4 | 6 | ,, 24 | 2 | April 23 | 3½ | April 16 | 7 |
| Oct. 8 | 6 | ,, 11 | 3 | July 15 | 2½ | May 10 | 4½ | ,, 11 | 5 | Oct. 30 | 3 | ,, 30 | 3 | May 2 | 8 |
| ,, 12 | 7 | Dec. 5 | 2½ | —— | — | ,, 24 | 4 | May 16 | 6 | —— | — | May 16 | 3½ | ,, 5 | 9 |
| ,, 19 | 8 | —— | — | —— | — | Nov. 8 | 4½ | Aug. 1 | 5 | —— | — | ,, 21 | 4 | ,, 19 | 8 |
| Nov. 5 | 9 | —— | — | —— | — | ,, 13 | 5 | ,, 15 | 4½ | —— | — | Nov. 2 | 5 | ,, 26 | 7 |
| ,, 9 | 10 | —— | — | —— | — | ,, 15 | 6 | ,, 29 | 4 | —— | — | ,, 5 | 6 | June 16 | 6 |
| Dec. 25 | 8 | —— | — | —— | — | ,, 28 | 5 | Sept. 19 | 3½ | —— | — | Dec. 2 | 7 | July 25 | 7 |
| —— | — | —— | — | —— | — | Dec. 31 | 6 | Nov. 7 | 3 | —— | — | ,, 3 | 8 | Aug. 4 | 8 |
| —— | — | —— | — | —— | — | —— | — | —— | — | —— | — | ,, 24 | 7 | Sept. 8 | 9 |
| —— | — | —— | — | —— | — | —— | — | —— | — | —— | — | —— | — | Nov. 10 | 8 |
| —— | — | —— | — | —— | — | —— | — | —— | — | —— | — | —— | — | ,, 24 | 7 |

For fluctuations and high rates no nation in Europe comes up to this record of our money-market for the last eight years. No foresight can guard against such changes, and the ordinary profits of trade cannot support such exactions.

From these facts it is manifest that, the Bank Act of 1844 has failed in its professed objects.

It is equally manifest that, at the present time, (1865), the amount of Bank of England notes to meet the requirements of England and Wales cannot be less than £40,000,000, and to meet the requirements of the United Kingdom cannot be less than £50,000,000.

But, moreover, these facts also prove the failure of the professed principle of the Bank Act of 1844, which was, that as the bullion diminished the Act would compel a reduction of the notes in the hands of the Public.

The futility of this idea is shown in the following figures, selected from innumerable examples.

Thus, on the 29th August, 1846, the amount of Bank of England notes held by the public was £20,426,000, and the amount of bullion in the Bank on that day was £46,366,000, and the *minimum* rate of discount was 3 per cent.

On the 10th April, 1847, the amount of Bank of England notes held by the public was

£20,403,000, and the amount of bullion in the Bank on that day was £9,867,000, and the *minimum* rate of discount was 5 per cent.

Here the amount of Bank of England notes in circulation was nearly the same at both periods; but, in April, 1847, the bullion in the Bank had diminished nearly one-half, and the *minimum* rate of discount had risen from 3 to 5 per cent.

This fact seems to be fatal to the Currency Principle of Lord Overstone:—"That when Bank-notes are permitted to be issued, the number in circulation should always be exactly equal to the coin which would be in circulation if they did not exist."

On this fallacious principle the Bank Charter Act of 1844 was formed. The power of unlimited issues was taken away and placed on two foundations only:—

1. A fixed amount of public securities:

2. The amount of bullion in the Issue Department of the Bank.

The amount of Issues upon Public Securities was permanently fixed at £14,000,000, subject to increase by two-thirds, on securities, of the lapsed issues of the country banks,* and every

* "The reason why the Act fixed these proportions of two-thirds, and one-third was, because it was assumed that the

other note was to be issued in exchange for bullion only; so that the amount of the notes issued on bullion should be governed solely by the public.

The details with regard to the existing issues of private banks it is unnecessary here to enter into.

The Bank of England, therefore, as at present established, consists of two separate and distinct departments,—the Issue Department, and the Banking Department,—and although it be true that the Banking Department cannot control the Issue Department, yet, it is no less true that, the Issue Department can and does control the Banking Department.

The Issue Department is, theoretically, as separate and distinct from the Bank of England as from any other Bank, and is simply an office of the State, established for the first time by this Act, and working purely by mechanical agency, or by inflexible rules, for manufacturing and cancelling Bank of England notes, and in this

country banks returned one-third of their circulation in bullion. Therefore, they allowed any country circulation which lapsed, to be taken up by the Bank of England, to the extent of two-thirds upon securities, and the remainder, of course, as before upon bullion." Select Committee of the House of Commons on the Bank Acts, 1857. Evidence of T. M. Weguelin, Esq., M.P. 598.

work obeying a self-acting rule, without any discretion.

The Bank of England furnishes the premises for this office, and supplies the machinery, but does not control it, and for this accommodation is paid by the Government.

The machinery of the Issue Department simply responds to the impressions made upon it by the public. When five sovereigns are dropped in, a Five Pound Note is mechanically given out. When the same or a like note re-appears on another day, the operation is reversed: five sovereigns are given out, and the note is taken and cancelled. These operations are repeated as often as the notes or sovereigns are presented.

The Directors of the Bank of England, as regards the Issue Department, stand in precisely the same situation as all other members of the community. They can get notes for gold, or gold for notes.

The Bank of England is precisely in the same situation as any private or joint-stock bank, and obtains its supplies, whether of gold or notes, precisely in the same way. The only difference is that, the Bank of England has a larger business than any other Bank, and therefore requires to keep in hand a larger amount of gold coin and notes than any other Bank, to meet the ordinary

demands upon it. The Bank of England procures its needful supplies of gold and notes precisely in the same way as the bank of Smith, Payne, and Smiths, Child & Co., Coutts & Co., the London and Westminster Bank, or any other bank procures its needful supplies; only these banks keep in hand a much smaller supply of gold than the Bank of England in proportion, because it is well known that the notes can always be converted into gold at the Bank of England whenever required.

The Banking Department of the Bank of England, of course, can do the same.

But all the Banks could do and always have done the same, since 1819, with the same certainty and convenience as now, and without the machinery of the Issue Department.

Why the Bank of England should keep in hand a larger quantity of gold, in proportion to the ordinary demand, than other banks find it necessary to keep in hand, is a question to be answered by the advocates of the present system. At the first view this practice of storing seems to be more in accordance with the system of Joseph and his Egyptian Granaries, than with the modern theory, and if it be right to keep a large public store of gold, it cannot be wrong to keep a large public store of corn and other grain. But that is not done now.

We have now had the experience of twenty years for ascertaining the precise effects of the separation of the Issue Department from the Banking Department of the Bank of England.

There can be no doubt that, by this means the convertibility of the note into gold is made secure.

But, if that were equally secure before, as the experience of the twenty-five previous years proves that it was, then the separation of the Issue Department from the Banking Department was, for this purpose, unnecessary.

As it is not pretended by the advocates of this measure that the separation was for any other purpose than securing the convertibility of the note, it would be unnecessary to pursue this branch of the inquiry further, if it were not for the injurious effects of this separation upon the Banking Department, which will now be considered.

It is generally known that, in the year 1797, the Bank of England was obliged to suspend the payment of its notes in specie.

But it was not so generally known that it was brought to this extremity by the abuse which had been made of its resources by the Government, which had taken not only the whole of the capital of the Bank, but had also taken advan-

tage of its credit for obtaining advances to an enormous amount. It was necessary to relieve the heavy expenses required for the gigantic struggle which Pitt had organised against France; and, by a course of political necessities, the Bank was reduced to serve as the Treasury Chest.

The British Government by this means avoided too frequent and too large recourse to credit; but it escaped one danger only to fall into another much more perilous: it compromised an Establishment which was the foundation stone of industrial and commercial credit, as well as public credit.

Thus the capital which ought to have been reserved for industry and commerce was wasted in the unprofitable war in which Pitt, the great Minister, as he was called, involved this country with France.

The injury done to this country by thus compromising its credit, and forcing into circulation the inconvertible paper-notes of the Bank of England, was, in the end, a greater loss of capital than the whole expenses of that long and ruinous war, so certain it is that the credit of a country is its most precious possession.

English patriotism, however, on that occasion lifted the country over its difficulties, and the honourable unanimity of the Merchants of London

supported the inconvertible note of the Bank of England.

But this did not prevent the depreciation of the Bank-note 25 to 30 per cent.

Sir Robert Peel, struck with the serious inconvenience of this state of things, which had continued twenty-two years, in 1819 formally demanded of Parliament the restoration of Cash Payments.

Of all the measures of that Statesman this was the greatest, and the most salutary; for it changed the face of things by restoring order, and the credit of the country.

The experience thus acquired, at a tremendous cost, established the fact that a Bank-note circulation can stand only on the basis of the precious metals; also that the privilege of issuing notes should be confined to one Bank, and that, in return for such privilege, the Bank should be deprived of the power of lending money, not only to the Government, but to any individual.

The success of the measure of Sir Robert Peel in 1819, for limiting the issue of Bank-notes by compelling their payment in gold, encouraged him to attempt a further limitation of the issue of Bank-notes, and this led to the present Bank Charter Act of 1844.

Under this Act the Bank of England is divided

into two departments;—that of Issue, and that of Banking, or discounting and advancing.

This limitation, being too restrictive, has been fatal to the success of the experiment, and has made the Bank Act of 1844, instead of a beneficial measure, one most injurious to the country.

The amount of Bank of England notes not represented by specie is now limited to £14,650,000, and this amount of Bank-notes forms the capital of the Banking Department.

The department for Banking, or Discounting, is served with bank-notes, which are issued on credit, and are not likely to be brought in for payment; but, to this amount, (excepting the deposits) the Banking Department is strictly confined, these being the only resources for all its banking liabilities.**

Not only cannot the Banking Department pass beyond these limits, but it must keep, either in bank-notes or in specie, a reserve sufficient for the service of its current accounts, and that is held to be a natural state when the reserve, whether in notes or specie, represents about one-half of the amount of the deposits. When the reserve reaches or exceeds this moiety, that is supposed to be a satisfactory state, and the Bank

* See description of the banking reserve by Mr. Weguelin, page 294, *post.*

then lowers its discounts to enlarge its business; on the other hand, it raises its discounts when its reserve in bank-notes or specie descends below this proportion, being obliged in that case to reduce its business, in order not to exhaust its reserve.

This practice of the Bank of England is exemplified in its weekly returns, and the last account in the last year will serve as well as any other for the example.

## BANK OF ENGLAND.

An Account pursuant to the Act 7th and 8th Victoria, cap. 32, for the Week ending on Wednesday, the 28th day of December, 1864.

### ISSUE DEPARTMENT.

| | £. | | £. |
|---|---|---|---|
| Notes Issued | 28,036,475 | Government Debt | 11,015,100 |
| | | Other Securities | 3,634,900 |
| | | Gold Coin and Bullion | 13,386,475 |
| | | Silver Bullion | |
| | £28,036,475 | | £28,036,475 |

## Banking Department.

| | £. | | £. |
|---|---|---|---|
| Proprietors' Capital . . . | 14,553,000 | Government Securities, (including Dead Weight Annuity) . . . | 10,824,542 |
| Rest . . . . | 3,356,854 | Other Securities | 19,786,541 |
| Public Deposits, including Savings' Banks, Commissioners of National Debt, and Dividend Accounts . . . | 8,601,125 | Notes . . . . | 8,663,490 |
| Other Deposits | 13,040,643 | Gold and Silver Coin . . . | 714,499 |
| Seven Days and other Bills . | 437,450 | | |
| | £39,989,072 | | £39,989,072 |

W. Miller, Chief Cashier.

Dated the 28th December, 1864.

According to the supposed rule, all that was wanted to place the Bank in what is called a satisfactory position was, the addition of £1,661,620, to the reserve in the Banking Department. The Bank-rate of discount might then have been 3 per cent., instead of 6 per cent.

With upwards of thirteen millions, sterling, in gold coin and bullion in the Issue Department, the amount of notes and gold and silver coin in the Banking Department was only £9,377,989, to meet deposits amounting to £22,079,218, inclusive of seven days and other Bills, amounting to £437,450.

If the Bank could have issued only £1,661,620 more of notes, the bank rate of discount, instead of being at 6 per cent., might have been, according to the rule, at 3 per cent., and the average of the whole year, instead of being upwards of 7 per cent., might have been under 4 per cent. It was just this state of things, in a little higher degree, which brought upon the country the disasters of 1847 and 1857.

In 1847, when the Government authorised the unlimited power of issue, so small was the additional quantity of notes required that, the whole amount taken from the Bank was under £400,000. It was sufficient that the Bank was enabled to use more freely its reserve of notes, being then safe in the power of renewing them if wanted.

In 1857, the notes authorised to be issued in excess of the Parliamentary limit was £2,000,000, and this power the Bank did not fully exercise. It availed itself of this credit to the extent only of £917,000; but the discounts were more freely made, the public confidence was restored, and the panic ceased. Discounts fell immediately four per cent., that is, from 10 to 6 per cent., and later to $2\frac{1}{2}$ per cent.

The Government on both of these occasions acted on the demand of the Bank, and the Bank on the demand of the Public.

Thus, it appears that the Bank of England raises the rate of discount only for want of Bank-notes.

The Bank of France raises the rate of discount only for want of specie.*

The Bank of England has no want of specie. All the gold that is brought to the Bank is buried in the vaults of the Issue Department, and notes are withdrawn by those who bring the gold in exchange. Consequently, this in no way helps the Banking Department for discount.

If the Bank of England see with regret the withdrawal of specie from the Issue Department, by the operations of the Bank of France, that regret is not from any fear for the loss of the gold, but only for the consequence, in a corresponding withdrawal of bank-notes from the Issue Department, thereby diminishing the already insufficient amount of notes in circulation, as proved with such terrible effect in 1847.

M. Pereire asks this very pertinent question :—

"Dès lors, en quoi consiste cette prétendue solidarité entre notre encaisse et celui de la Banque d'Angleterre?

"Le mal, le véritable mal est dans la dispro-

* "La Banque de France,"—Par M. Isaac Pereire, page 59–60.

portion de l'encaisse de la Banque de France avec le chiffre de ses émissions.

"La Banque de France a une circulation de billets qui dépasse généralement celle de la Banque d'Angleterre de 250 à 300 millions de francs, et, malgré une pareille différence dans le chiffre de ses émissions, son encaisse est toujours inférieur à celui de la Banque d'Angleterre; cette infériorité a été de 185,891,840 fr. au commencement de la présente année."*

This is noticed by M. Pereire as a very remarkable fact, and so it is, when the relative conditions of England and France are taken into consideration.

The Bank of England, (as M. Pereire truly observes), reduced in a manner to the character of a bank of deposit, can respond no more to the wants of British commerce; capital is abundant, but its circulation is immediately fettered by an extreme penury of credit-money, an element indispensable in all transactions of a certain importance. In restricting the Issue within too narrow limits, the capital, besides, finds itself deprived of one of the most powerful means of action for lowering the rate of interest.

This opinion, coming from the highest authority on the subject in France, deserves the serious

* Ibid. page 60.

consideration of the authorities in this country, and, certainly, more respectful attention than it has received in the answer of the *Economist*, for Saturday, December 17, 1864. The "slight haze," which that Writer imputes to M. Pereire's exposition, is not there, wherever it may be, and M. Pereire wisely withholds from entering into details which would only enable opponents still further to entangle the question.

That the writer in the *Economist* has not misunderstood M. Pereire's proposition for replenishing the reserve of gold by sale of Government Securities is clear from the manner of referring to his proposition as not clear.

But the opinion of M. Pereire is entitled to, at least, as much weight as the *dictum* of an anonymous writer in the *Economist*.

A National Bank ought to be a reservoir of money for supplying the wants for the trade and industry of the country, and, consequently, a National Bank ought to be so organised as to be able to satisfy all legitimate demands on reasonable terms. A National Bank ought to be this, and nothing more.

The inconvenient consequences of the fluctuating and high rates of discount to which this country has been subject since the passing of the Bank Act in 1844, are of such deep importance

to the country as to justify the demand for a Parliamentary Inquiry into the cause, especially when the cause is attributed by so many high authorities to that Act, which was passed with the professed view of producing the very contrary effect.

But if the limit of the credit circulation were fixed to meet the want in 1844, it seems hardly reasonable to suppose that the same limit should be suitable to the altered circumstances of twenty years later, with population and trade so greatly increased.

That is, certainly, a deplorable system which creates establishments for the avowed object of aiding and protecting trade and industry, and practically only developes the production of profit to those who are the agents employed to carry out the system.

But this appears to be the practical effect of the Bank Act of 1844, in its operation on discounts;—serious and often ruinous loss to trade; great and often inordinate gain to the Bank. It is difficult to imagine any parallel to this departure from the professed principle, of conferring benefit on the community, for that is the professed principle of the Bank Act of 1844, not increasing the profits of the Bank of England.

On what other principle than public benefit could the Government justify the appropriation of £14,000,000 of the National Debt on a Banking Company?

Every successive Bank Charter Act shows the intention of the Government to cut down the profits of the Company, and though the yearly allowances have been reduced, yet, by the much higher rates of discount since 1844, the profits of the Bank must have been very largely increased, and in much larger proportion must have been the losses inflicted on the community.

The Bank of England might well consent to confine its profits to its own capital when the average rate of discount is doubled, and was, during the whole of the year, 1864, more than double what ought to be the average rate in this country.

The very fact that, since the year, 1844, a National Discount Company has been established close to the Bank of England, and has been paying upwards of 20 per cent. per annum on the subscribed capital, is a strong condemnation of the Act of 1844, for such a Company could hardly have existed previously to that Act.

What can be more conclusive evidence of the

vicious system of the Bank of England than the fact that, during the year 1864, when the Bank-rate of discount was 8 and 9 per cent., the Joint-Stock Banks did not trouble themselves with the variations of the Bank-rate, but allowed to their depositors the same rate of interest as before?

The only answer is that, the vicious system of the Bank of England raises the rate of discount when money is most wanted, and, instead of keeping the rate steady between 2 and 3 per cent., keeps it in a state of continual fluctuation, and raises the average to more than double.

If the true object of the Bank of England, as the National Institution of Credit as well as Banking, were kept more clearly in view, it would be seen that, the Bank of England, as at present constituted, operates so imperfectly for the organisation of credit that, it actually encourages rival institutions for the very purpose of sharing with the Bank of England the enormous profits of those times of commercial distress which itself creates.

There is no mistake more mischievous than the popular error that, the rate of interest depends on the abundance or scarcity of capital.

At no time can it be said that, there is a scarcity of capital in this country, the fact being

that, capital is always in abundance in this country.

But it is equally true that, the lowest rate of interest has not been found in those nations which have had the most capital.

To prove this, it is only necessary to compare the history of Spain and Portugal with Italy, Holland, and England.

After the discovery of America, a great quantity of gold and silver was spread over the world, and the price of these metals was considerably lowered, but the rate of interest did not vary.

The same result has followed the working of the mines of the precious metals in Australia and California.

Whether it be possible to influence the rise and fall of the rate of interest, is a question which does not admit of a simple answer.

This question is a compound of the economical and the political.

In the economical point of view, the rate of interest expresses the supply and demand of capital.

In the economical point of view, the lowering of the rate of interest is the direct result of the abundance of capital, and the tendency to a low rate in this country is the evidence of that abundance.

In the political point of view, the rate of in-

terest is influenced by the relative situation of the class which possesses the capital, and the class which employs it, of the more or less independence of the one towards the other, of the importance of wealth in the social position, and its influence in the administration of public affairs.

In this country, notwithstanding the continual fluctuations, the interest of money has a constant tendency to lowering.

A little elevation of interest is a sign of properity in trade, and without a certain elevation there is a lack of encouragement to industry.

This is the indispensable condition for the development of labor.

Enterprises are then multiplied, and a fruitful energy then animates all portions of society, salaries augment, consumption extends and invites production, savings are formed, and the increasing accumulation of capital comes with a new power to give life to creations of all kinds, for the which industry, science, and the arts concur to ameliorate and ennoble the conditions of human existence.*

This is the eloquent language of M. Pereire, and millions in this country will respond to it.

M. Pereire regards it as one of the first duties of the Government, to exercise its power for ac-

* M. Pereire. "La Banque de France."—page 68.

celerating the natural tendency of the rate of interest to fall; and is of opinion that the Government, as one of the largest consumers of capital, must always have a powerful influence over this question.

Nor is the natural tendency of the rate of interest to fall without compensation to landowners and capitalists, for the value of all real and personal property is thereby directly affected.

It is, therefore, not so much the fixity of the rate of interest that is to be desired, as the fixity of the *maximum* at such a rate as will permit capital to be distributed in the manner most conducive to industry, and as long as the interest on the public debt is fixed at 3 per cent., the *maximum* for the Bank rate of discount should never exceed 4 per cent.

Extraordinary occasions may occur to raise the interest of money to a higher rate than 4 per cent., but few, if any, such occasions have occurred in this country, within the last fifty years, which might not have been avoided, if the Bank of England had been established and conducted on sound principles.

The rate of interest is never otherwise than relative. It expresses a state of things existing at a given moment, but engages nothing for the future. No one has ever spoken of a *fixed* rate of interest in any other sense than this.

When Turgot founded the Bank of Discount in 1776, and imposed on it the *maximum* of 4 per cent., he no more reckoned on fixing posterity to this rate of interest, than the First Napoleon, when he wrote in these words to M. Mollien :

"Lacken, 15 Mai, 1810.

"Je reçois votre lettre du 8. Ce que vous devez dire au gouverneur de la Banque et aux régents, c'est qu'ils doivent écrire en lettres d'or, dans le lieu de leurs assemblées, ces mots : QUEL EST LE BUT DE LA BANQUE DE FRANCE ?—D'ESCOMPTER LES CRÉDITS DE TOUTES LES MAISONS DE COMMERCE A QUATRE POUR CENT."

In the same way, in 1806, he scolded the Bank for having raised its discount to 6 per cent.

"Berlin, 14 Novembre, 1806.

"Vous devez dire au gouverneur de la Banque que je pense que, dans les circonstances actuelles, IL EST SCANDALEUX D'ESCOMPTER A 6%. Elle ne doit pas qu'elle escomptait déjà à 6 % lorsque les maisons de commerce faisaient leurs opérations sur le taux de 9 %. Il est donc convenable de revenir à l'ancien taux de 5 %.

"NAPOLÉON."

These are the instances given by M. Pereire (page 73 of his *brochure*).

As he remarks, if in 1776 and in 1810, the rate of discount for the great privileged establishments of credit, [" les grands établissements de crédit privilégiés,] appeared to be at its natural price at about 6 per cent., there was nothing very rash in thinking that we might be able, in our days, to reduce it without inconvenience to 3 per cent. M. Pereire goes on to add, " c'est effectivement ce qu'a voulu et ce qu'a réalisé M. Bineau, en 1852, sous l'inspiration de l'Empereur."

The effect of the reduction of the rate of discount to 3 per cent. by the Bank of France, on the 3rd March, 1852, through the interference of the French Government, is thus described by M. Pereire :—

" L'effet de ces simples mesures ne se fit pas attendre. On sait l'impulsion que reçurent toutes les affaires, l'immense développement que prirent nos travaux publics, par suite de la réduction de l'escompte à 3 % et de l'admission des valeurs de chemins de fer au bénéfice des avances de la Banque de France sur le même pied que les effets de commerce.

" Ce mouvement fut rapide, instantané ; l'abondance était revenue avec la confiance, et cependant on sortait à peine d'une situation de trouble et de révolution, pendant la durée de laquelle le capital national était loin d'avoir augmenté."

The creative power of the social forces, when encouraged and brought into action, is seldom taken sufficiently into account: on the other hand, the greatness of the loss which follows the least stoppage in the employment of those forces, and the importance of the capitals lost by the effect of an unproductive expenditure or the false measures which have arrested the completion, are not sufficiently measured.

But though it be true that supply and demand make the general law which fixes the interest of money, and regulates the rate of discount, yet it is easy to show how, under our artificial system of finances, this general law can be influenced and modified so as to steady and lower the interest of money and the rate of discount.

Banks, and Joint Stock Banks especially, have been formed for the object of bringing cheap capital to labour.

They perform the intermediate part of uniting and concentrating capitals, on the one hand, and on the other, of distributing them among the various parties in the great social workshop.

It is these Banks which have mainly contributed to break down the usurers and to lower the rate of interest for money; but, at the same time, to give it a certain fixed elevation.

The mechanism of the Banks which have

issued their own notes has also given marvellous aid in this operation.

This mechanism consists in replacing a portion of the money of the country by the credit-money, —in the substitution, for the office of money, of a capital which costs nothing, in comparison with a corresponding portion of capital in the precious metals, which serves for the wants of exchanges.

But the Bank-paper can circulate on equal terms with the money only on the condition of being convertible into money, of gold or silver.

It is necessary, then, that every bank should hold in reserve, or hold the power of obtaining immediate possession of, a certain proportion of the precious metals in order to comply with this condition.

The proportion depends on the special credit of each bank.

It varies generally from a third to a half of the amount of the circulation; but in this respect it is necessary that the responsibility of these establishments should be complete, and the guarantees which they owe to the public no Government could be justified in diminishing.

The obligation to maintain constantly the relative state of account recognised as necessary between their treasure chest and their circulation draws away the advantages which are conceded to them. It is even the condition of these advantages.

From this results the necessity to constitute a capital, the object of which is to form a fund for satisfying the demand for repayment of the notes issued; it is useless to add that this capital serves to guarantee the creditors of these establishments; but this character of guarantee, which it ought to present in every case, is superior to the use that they are able to make of it; it is independent of the mode of placing, of the form under which it is represented.

The banks receive, besides, deposits, whether public or private, on current accounts without interest; except the Joint Stock Banks which allow interest.

The Country Banks can, or rather could formerly, issue paper notes, on which they had no interest to pay, to an amount the double or treble of their capital, and thus realise, with the produce of the sums deposited with them in account current, a benefit triple or quadruple the interest of their social position.

Apart from the £14,000,000 (now £14,650,000) the credit capital of the Bank of England,—which ought to be realised in its treasury,—the ordinary movement, resulting from the play of its operations, leaves disposable in the Banking Department from 5 to 6 millions, and from the bullion in the Issue Department might safely be

taken the same amount, thus forming a fund which would carry security to a further issue of Notes to about 10 or 12 millions, and even beyond, according to the wants of the community.

Thus, for example, taking the actual situation of the Bank of England on the 7th September, 1864:—

| | |
|---|---|
| The amount of deposits, including, (instead of excluding), the bills, at 7 days' sight, being | £19,483,717 |
| And taking one-half for the rule . . . . . | 9,741,858 |
| The Notes and Specie in the Banking Department being only | 6,810,582 |
| The deficiency is . . | £2,931,276 |

In this state of the Banking Department, according to the rule, there is no legitimate reserve for discount, and consequently the rate of discount rises to 8, 9, and 10 per cent.

But if this deficiency of £2,931,276 had been made up out of the bullion in the Issue Department, as it might safely have been, the Banking Department would have been in, what is called, —*a normal condition*, and according to its own rule, might have safely discounted at 3 per cent.;

whereas, on the 7th September, 1864, the Bank rate of discount was 9 per cent.

But, if the separation between the Issue Department and the Banking Department had been abolished, and the whole of the bullion in the Issue Department had been in the Banking Department, the account would have stood thus:—

| | |
|---|---|
| Bullion in the Issue Department . . . . . | £12,226,895 |
| Deficiency in the Banking Department . . . . . | 2,931,276 |
| Surplus . . | £9,295,619 |

If from this surplus were set apart 2 millions to meet the ordinary demand for gold, this would leave £7,295,619 applicable to the further issue of notes according to the want, and the rate of discount might have been safely brought down to 3 per cent.

With such means as these, it is easy to see that the power, even of the Bank of England alone, is sufficient to keep the rate of interest within certain moderate limits; but, with the aid of the enormous capitals united in the other Banks, it is manifest that the money-market is in a great measure under their joint control; though, from the periodical inflowing of capital, after pay-

ment of the Dividends on the public debt, in the form of deposits, on which no interest is paid, the Bank of England must always maintain the superior controlling power.

With such object the Banks have been instituted. Their mission, as M. Pereire remarks, is to procure cheap capital for industry and commerce. The Public are, therefore, entitled to demand from them an account of the manner in which they fulfil their mission, and to require that such arrangements be made as are best calculated to effect the object.

And after all, it is not these establishments which give credit to commerce; but, on the contrary, it is commerce which gives them credit, in availing itself of their notes, and in bringing to them, without any remuneration, the whole of its disposable funds. It is, therefore, not too much to demand for the public a participation in such advantages in the form of moderate discount.

But, if the power of the Banks be great for good, it is no less great for evil, especially when they are invested with an exclusive monopoly, and their power is without counter-weight.

They can, at their pleasure, use the immense capitals at their disposal for the purpose of raising as well as lowering the rate of discount.

Left to themselves and to the impulses of their own private interests, it is very easy for them to augment their benefits at their pleasure, and so to increase the charges of labor in proportions which cannot be measured by these benefits only, for the loans which they effect are but the smallest fraction of the whole of the operations of the same kind.

It is here that the watchful superintendence of the power is indispensable to prevent such abuse.

Having placed these premises, let us examine into the actual working of the Bank of England; let us see how far it has been faithful to its mission, how far it has comprised and protected the interests of trade and industry, of which it ought to consider itself the guardian.

The facts unfortunately answer these questions.

The Bank of England, as already shown, has been in the habit of regarding the exercise of its privileges as a private affair; the capital which it deducts gratuitously from the circulation is regarded only as private property of the same nature as all other private property, to be used by the Bank for its own profit.

The more abundant is this capital, the greater are the benefits to be derived from it.

The Bank of England has not escaped the common tendency of the country banks of issue, to augment the issue of paper-notes, which cost nothing, without augmenting the proportion of its specie.

Thus, as before shown, on the 7th September, 1864, the amount of notes issued was £26,876,895, and the amount of notes in reserve was £6,067,030, leaving the notes in circulation £20,809,865.

| | |
|---|---|
| The bullion in the Issue Department was . . . . | £12,226,895 |
| And the coin in the Banking Department . . . . . | 743,552 |
| Making together . . . | £12,970,447 |
| The deposits and bills at 7 days' sight amounted together to . | £19,483,717 |

We know that this is a state of things resulting from the rigid mechanism of the Issue Department, and though the convertibility of the note be not in question, still this is a very anomalous state of things, which retains in the Issue Department bullion to the amount of £12,226,895, and in the Banking Department coin to the amount only of £743,552, and a reserve of notes to the amount only of £6,067,030,

to meet deposits and bills to the amount of £19,483,717.

The year 1864, just passed, has been the longest continuous period of monetary disturbance in this country, short of an actual crisis, that has occurred within living memory.

With the exception of the few weeks in 1857, when the rate of discount rose to 10 per cent., money has been dear beyond precedent, the average rate of discount during the whole of the year, 1864, having exceeded 7 per cent.

Trade has been carried on under a continual pressure, with all the well-known symptoms of an approaching panic, and with all the dread of the consequences.

A vague impression of impending ruin to many pervaded the City of London, and the same feeling prevailed abroad.

Paris, Frankfort, and Amsterdam, trembled for themselves, but much more for London.

Credit was shaken, and industry was paralysed throughout this country, and expectation waited for another suspension of the Bank Act, or a general collapse of trade.

By slow degrees, and without any other interference than a rapid rise of the rate of discount to *nine per cent.*, the alarming symptoms subsided and the anticipated panic was averted, but

not until many old and well-established houses had fallen.

The public mind is oppressed by the sense of this frequently occurring danger, and bewildered by the various and different causes to which it is attributed. Over-trading, over-speculating, and the export of gold, are familiar phrases with those who attribute the high rate of interest to one or all of these causes.

But, when these causes are separately examined, each will be found to be quite insufficient for any such general and extensive effect; and, when taken in the aggregate, will be found to be quite inconsistent with each other; the true answer being that, each or all of these assumed causes has little or no influence on the subject in question.

Whatever meaning may be attached to over-trading or over-speculating,—and what it does mean is by no means clear,—that can in no way affect the general rate of the interest of money, for neither the supply nor the demand for capital can be thereby perceptibly, if at all, diminished.

Neither can the cause be reasonably attributed to foreign loans, foreign remittances, or the export of gold, for although these might in time operate to some extent to diminish the

supply of capital in proportion to the demand for industrial purposes at home, yet this demand would itself provide the remedy, and reduce the extent and duration of the mischief, so as to render it impossible that such a cause could continue to produce the effects which have been witnessed through the long period of the past year.

Under our present system of credit, engagements in trade necessarily extend far into the future, and as immediate contraction is supposed to offer the only escape from a money-crisis, such a remedy cannot fail to produce great anxiety and also great embarrassments to those engaged in trade.

But if, instead of this remedy of sudden contraction of credit, by suddenly raising the rate of discount to 8, 9, or 10 per cent., the ordinary rate were gradually raised 1 or 2 per cent., until the equilibrium in the value of money between this country and foreign countries were restored, the disastrous consequences from these sudden and great variations might be avoided.

As before observed, the object to be aimed at is not to preserve a uniform rate of discount in this country, but to maintain a uniformity in the value of the British Currency with that of other countries.

It is not denied that, when the value of money is lower in this country than in other countries, the foreign demand will come into competition with the home demand, and that, the equilibrium being disturbed, one of the means for restoring it is, to raise the rate of discount. But the present question is, whether there be not other means, equally prompt and effectual, and less injurious. Nothing so absurd is proposed as any interference with the free circulation of money, which must always be free in spite of all attempts to the contrary.

The object is to establish the Bank of England on such a principle as shall effectually prevent the disastrous consequences to this country from these great and sudden and continually recurring variations in the state of credit, resulting from the fluctuations in the value of money, or in the price of gold, which is the same thing.

Every country must be liable to these fluctuations, according to the variations in the supply and demand of the precious metals, and although these fluctuations can never be wholly prevented, yet they may be so far controlled and regulated as not to affect credit perceptibly in this country, instead of being aggravated, as they now are, by the constitution and practice of the Bank of England.

It is obvious that the transactions of general commerce cannot be suddenly curtailed without serious derangement of the labor market, and, as a necessary consequence, wide spread misery. Of this the sudden interruption to our cotton trade is a striking example. But, notwithstanding this and the high rates of interest, with the constant apprehension of an impending crisis, although we have not escaped the serious consequences of the derangement of our labor market, yet, the general trade of this country throughout the last year has not only not diminished, but has actually increased, though the profits have greatly diminished.

How much greater might have been the increase, and how much lost capital might have been saved, if the Bank of England had been so constituted as to aid instead of aggravate the difficulties created by the high rate of discount, is a question which can never be answered; but, if the loss have been greater than the cost which might have prevented that loss, then the means of applying the less costly remedy becomes a question of the first importance.

It is true that our recent financial difficulties and high rates of discount are attributable, to some extent, to the interruption of the cotton trade, and that Egypt, India, and other countries,

in their endeavours to supply the demand for cotton, have taxed the paying powers of this country much more than America ever did in furnishing the supply. America, in the general course of trade, took payment not in bullion but in our manufactured goods. But Egypt and the other countries, well adapted by soil and climate to the growth of cotton, have had to make costly preparations for supplying this demand; and, with the price of cotton increased 150 per cent., those countries could well afford to borrow money at 10 or even 15 per cent., for the profit of such a market price.

The interruption of the cotton trade, therefore, far from contracting the liabilities of this country, as might naturally have been expected, has, on the contrary, actually increased them by the new forms of foreign commerce which have arisen out of this interruption. For, to this country all foreign countries come for money.

In this state of things, and during the continuance of this transition state, the normal rate of discount has necessarily changed, and has been no longer 3 or 4 per cent., but 7 or 8 per cent.

If this be a necessary consequence, as undoubtedly it is, any attempt at forcible prevention must be unphilosophical and in vain.

This is admitted in the fullest sense.

But, the Bank of England, by its defective constitution and injurious practice, has greatly aggravated this state of things to the loss and injury of the general trade of this country, by diminishing its productions, and pressing with ruinous severity on all trades and industry.

An increase in the Imports and Exports, though evidence of increase in the commerce, is no evidence of increase in the productions and general prosperity of the country.

If, in the last year, the productive powers of this country were curtailed, and the productions actually diminished, as the fact is, the passage of goods into and from this country is but a very imperfect criterion of prosperity.

The total value of Imports into this country in the year, 1864, exceeded the total value in the year 1863, by nearly £2,000,000; but the total value of Exports from this country in the year, 1864, was less than the total value in the year 1863 by upwards of £2,000,000.

An enormous amount of capital has been transferred from this country into other countries on terms very profitable to the capitalists, but not yet productive of any sensible benefits to this country.

In the mean time this great outflow of capital and the consequent rise in the rate of discount,

from the increased demand with the diminished supply, has checked all our manufactures, throwing out of employ large multitudes of our working classes, and reducing the general rate of wages throughout the country.

This is one of the evils through which every country must pass when, like this country, it is mainly dependent on its trade and manufactures.

But this particular evil, arising out of the civil war in America, need not be aggravated by raising the price of money in this country, or making money scarce because cotton is scarce, or withdrawing bank-notes because gold is withdrawn.

It is true that gold, like every other marketable commodity, must go to the best market, and that every attempt to prevent the operation of this natural law must be in vain; but this is no reason for withdrawing bank-notes, which represent gold, if the Bank of England be able, as it easily might be, to compete with other countries in the open market for the purchase of gold.

It may be, and often will be, that, in this competition great losses will be incurred by the Bank of England, but that is a necessary and unavoidable incident to the economical use of paper for gold, and ought to be considered as

part of the inevitable cost of this contrivance; and as it is one of the first duties of the State to supply money at all times equal to the requirements, the cost incurred in the performance of that duty ought to fall upon the Bank of England, under the terms of the Agreement between the Bank and the State, but certainly not upon the community, by a scarcity of money and consequent rise in the rate of interest.

But in this country and in France this unavoidable evil, instead of being mitigated, is greatly aggravated by the peculiar constitutions of the Bank of England and the Bank of France, by making these institutions trading associations for their own profit, instead of National Banks for the steady and productive flow of money at all times equal to the requirements.

There is no reason why the steady flow of money should be interrupted in the country where the capital exists, whatever may be the fluctuations to which that capital is subject; and the requirements of money for the transfer of capital must always be in proportion to the capital to be employed.

When the gold is flowing out of this country at the rate of 10 or 15 per cent., it is idle to be thinking of employing it in this country at 4 per cent. But it is active mischief to allow the

Bank of England to be trading with its credit, for the purpose of sharing in the profits of that gold trade, at the cost of the trade and industry of this country.

And that is just what the Bank of England is doing whenever the opportunity occurs.

This is an aggravation of the evil, for this is not only encouraging the outflow of gold, but it is at the same time shaking the very foundation of credit, by diminishing, in the same proportion with the gold, the bank-notes which represent the gold and constitute the money, with the distribution of which the Bank of England has been entrusted by the State for the benefit of the country.

But,—as Capitalists and Political Economists will say,—by so encouraging the outflow of gold the equilibrium of value will be the sooner restored.

This is true. But this will be at an incalculable sacrifice of property to the country, and to the great profit of the Bank of England. This is not consistent with the object of a National Bank.

If the security be safe, or be supposed to be so, all the unemployed capital will go where it can gather 10 or 15 per cent., and will not be stopped by the offer of 3 or 4 per cent. It will

come back in time increased, or it will come back diminished, or not at all. But, any way, this is a speculative investment, and the return of the capital is, to some extent, uncertain.

If the object of the Bank of England be to assist the trade and industry of the country, it is clear that the resources of the Bank ought not to be liable to be drained away by foreign speculation for the benefit of the shareholders in the Bank, and to the loss and injury of the British community.

On no ground can the Government justify the appropriation of Fourteen Millions of the Public Debt for the benefit of the shareholders in the Bank of England.

If the Bank of England insist on its right to do what it likes with its own, then let the Government pay its debt to the Bank, and let it do what it likes with its own.

But, then, let the Government establish a National Bank on a broader and more independent basis, for the benefit of the country, and with no other object.

If the privilege of issuing notes of equal value with the coin of the realm be granted exclusively to the Bank of England, as it ought to be, that privilege is conferred for the benefit of the community, not of the Bank.

The Bank ought not to enjoy even the smallest portion of the profits of that issue.

The Bank ought to be beyond suspicion that it is influenced in the management of those issues by any expectation of profit therefrom.

The whole profit of those issues belongs of right to the People, being wholly derived from them.

The Bank has no more right to participate in the profit from the issue of notes, than it has from the issue of the coin of the realm.

The special and exclusive privilege to the Bank of England can be justified only on the ground that it is beneficial, and that the whole benefit is secured to the People. It is not only of the loss of this profit that the People have a right to complain, but of the loss and injury which they sustain from the improper use made by the Bank of England of this exclusive privilege.

The distress caused by the high rate of discount is one thing, but the distress caused by a money-panic is another and different thing. The one arises from deficiency of capital; the other from deficiency of credit. These are totally distinct, and never occur at one and the same time; the last occurs very seldom.

No one doubts the convertibility of the note into gold on demand, and no one ever has doubted it, at least, for the last forty years and upwards.

The doubt is about getting the Bank-notes when they are wanted.

This difficulty most frequently arises from the small amount of credit capital at the disposal of the Bank in proportion to the want, and this is aggravated by the speculative jobbing of the Bank for high rates of discount.

It is this jobbing which weakens the power of the Bank for holding in check the rising rate of discount.

Instead of exercising any check on the rising tendency, the Bank of England is the first to raise the rate, and the last to lower it.

Alarm for its insufficient reserve in the Banking Department, and for its stock of bullion in the Issue Department, the Bank of England is the first to create alarm throughout the country, and powerless to relieve it.

The alarm for notes is not unfounded, the Bank having been, on several occasions, all but at a stop.

But the alarm for gold has never been well founded, since the note has been convertible into gold on demand.

Nothing can be better calculated to create alarm in the Public mind than when the cry of alarm is raised by the Bank of England itself, by raising the bank-rate of discount.

Nor can anything be better calculated to create alarm in the Public mind than the actual position into which the Bank of England is so often brought, with its small reserve and no capital, and no means of getting notes out of the inflexible grasp of the Issue Department.

It cannot be denied that there is ground for alarm when the Bank of England shows, as it did show by its Weekly Account on the 7th of September, 1864, an issue of notes to the amount of £26,876,895, and Public and Private Deposits, with Bills at 7 days' sight, amounting altogether to £19,483,717, and a Banking reserve in notes and specie of only £6,810,582.

According to the understood rule of the Bank, this reserve, as before shown, was less than half the amount of Deposits and Bills at sight by £2,931,276, this being the sum wanting to place the Banking Department in what is considered to be a normal condition, and, consequently, the Banking Department was compelled to curtail discounts by raising the rate to 9 per cent. This becomes a necessary precaution of the Bank for its own sake, but at the expense of the community.

If the banking reserve had been nine *millions*, instead of six millions, the bank-rate of *discount* might have been at 3 per cent., instead of 9 per cent.

The additional issue of three millions of notes, therefore, would have saved the country the additional 6 per cent.

But, on what ground is the Bank of England permitted to use these deposits as part of the capital of the Bank?

When the Banking Department discounts on the strength of these deposits, the effect is the same as if the Issue Department issued notes against these deposits, as regards the drain of gold from the Issue Department, where these notes may be exchanged for gold.

The Banking Department, therefore, raises the rate of discount for protecting the gold in the Issue Department, and at the same time encourages the drain of gold from the Issue Department by discounting on the strength of these deposits.

The reckless inconsistency of this proceeding seems to be accounted for only by the tempting profit to the Bank of 9 per cent.

This is, in effect, issuing notes, or putting them in circulation, against deposits, and the uncertain possession by the Bank of these deposits must be an uncertain foundation for the issue or circulation of notes, payable in gold on demand, and must make continual variations in the bank-rate of discount.

It is impossible to conceive an action of the Bank of England more dangerous than this to itself, as well as to the community; or anything more improper than this practice, the Bank of England being entrusted exclusively with the issue of the paper-money of the country for the benefit of the community, such paper-money being payable in gold on demand.

Only a few years ago, a large discount house in the City operated on the Bank-reserve to the extent of nearly £2,000,000, by suddenly withdrawing that amount deposited with the Bank and standing to the credit of that house. The consequence was an immediate advance of 1 per cent. in the rate of discount.

If other Banks and Financial Companies, having large deposits to their credit, had simultaneously taken the same course (as they clearly might have done), the Bank of England, under the Act, must have stopped payment.

No one would have any right to complain that Bankers and Merchants employed their money as they thought best for their own benefit, and there is no law to prevent any one from withdrawing his deposits from the Bank of England whenever he thinks fit to do so. Neither is there any law to prevent capitalists in this country contracting with foreign governments for the

supply of any given amount of bullion. These operations are within the province of legitimate trade.

But the Public have a right to complain that the Bank of England, which is entrusted with the special and exclusive privilege of issuing, and, in a great degree, regulating the money of the country for the benefit of the community, makes itself an instrument for playing into the hands of the great capitalists for further enriching them, to the incalculable loss and injury of all the rest of the community.

It is said that the rate of discount only marks the price of money in the market, and that the Bank of England can only follow, and cannot control.

But this, as already shown, is not true. There are times and occasions when the Bank of England can control by not following.

But the complaint is that, the Bank of England leads in the race and assists the great Capitalists in their run for gold, and thereby helps to make money scarce and dear throughout the country.

This is the complaint, and this is a well-grounded complaint.

It is trifling with this great and important subject to say that, the Bank of England has no influence over the rates of discount.

The contrary is true, and the People feel and know it to be true, but they have never known how to state their case.

The Bank Charter Act leaves them at the mercy of any capricious or concerted movement in finance on a large scale, and helpless against the combinations of capitalists in league with foreign governments or potentates who may find it worth their while to take advantage of our well-stocked money-market and defective legislation.

During the monetary crisis in 1857, the losses to the community by the failures in trade and depreciation in prices on stocks held were incalculable, when the fall, at the lowest estimate, on the various articles ranged from 30 to 60 per cent. and upwards, showing an actual loss of capital to the country of many millions, sterling.

The loss from the previous crisis in 1847, may be estimated in the same way and at much the same amount.

For these reasons it seems to follow, as a necessary consequence; either that the Bank of England ought not to receive deposits for use; or, that the Bank of England ought not to issue its notes.

The Bank of England, if it would maintain

its independence, must give up using the deposits; and independence is essential for the security of a Bank of Issue.

The Public has a right to demand all the security that can be given to the Bank of England, if it is to be entrusted exclusively with the issue of the money of the country.

Imagination exhausts itself in seeking the causes of the frequent and alarming disturbances of the money-market.

The opinion, so generally expressed, that the cause is in the too great excitement given to labor and production, is an error which must be altogether rejected.

Labor may be badly done, and that is a cause of real loss, but there can never be too much labor when it is well done.

The most industrious people are always the richest. And, as to superabundance of production, let us ask with M. Jacques Lafitte:—

"Si quelque part on jette le blé dans les rivières, si on détruit et livre au vent les produits de nos manufactures; si quelque part on foule aux pieds les ouvrages surabondants d'aucune espèce de travail?"

"Is there any part of the world where they throw corn into the rivers, where they deliver to the wind the produce of our manufactories; is

there any part of the world where they tread under their feet the superabundant works of any species of labor?"

But let us descend from these heights and look simply at one of the most ordinary of the causes which come periodically to afflict our commerce. They flow, almost always, from the monopoly of the Bank of England in the issue of notes and the peculiar manner in which their circulation is governed.

Thus, on the 7th September, 1864, the number of notes issued was £26,876,895, and the reserve of notes and coin was £6,810,582.

The Bank rate of discount was 9 per cent.

On the 28th December, 1864, the number of notes issued was £28,036,475, and the reserve of notes and coin was £9,377,989.

The Bank rate of discount was 6 per cent.

In the corresponding week in the year 1863, the amount of notes in circulation, including bank post bills, was £20,686,538, and the reserve of notes and coin was £8,886,575.

The Bank rate of discount was 7 per cent.

In the corresponding week in the year 1862, the amount of notes in circulation was £20,516,435, and the reserve of notes and coin was £9,735,171.

The Bank rate of discount was 3 per cent.

In the corresponding week in the year, 1861, the amount of notes in circulation was £20,818,190, and the reserve of notes and coin was £10,445,899.

The Bank rate of discount was 3 per cent.

In the corresponding week in the same years, the amount of coin and bullion in the Bank was as follows:—

| | |
|---|---|
| 1861 . . . | £15,961,439 |
| 1862 . . . | £14,956,421 |
| 1863 . . . | £14,362,605 |
| 1864 . . . | £14,100,974 |

Examples might be multiplied to any extent, but these are sufficient to show that, the amount of notes, and not the amount of bullion, raises or lowers the rate of discount.

In the last weekly return of the Bank for the years 1862, 1863, 1864, the amount of coin and bullion ranged, with but little difference, between 14 and 15 millions, and the Bank rates of discount at the corresponding periods in these years were 3, 7, and 6 per cent.; and in September of the last year 9 per cent.

Instead of over-production being the cause of the average rate of discount at upwards of 7 per cent. for the year, 1864, the fact is that, there was a very considerable falling off in all our manufactures in that year; and, as before

noticed, an increase in the amount of our exports and imports is no criterion whatever for determining the amount of our productions, the increase being not in our own but in foreign productions, of which we were merely the carriers.

As a sign of prosperity this is deceitful, the year, 1864, however prosperous to Bankers and Capitalists, being very much the reverse to the trade of this country, and the loss of capital being very much greater than the gain to the Bankers and Capitalists.

It were better for the country that the Bank of England shared in the general loss, than in the partial profit, for then the Bank would be more disposed to seek the means for preventing or reducing the loss. Unfortunately, the Bank of England finds too large a compensation in the high rate of interest to be induced to adopt any means either for preventing or reducing it.

It is impossible to suppose that this country should support such a diminution of the circulating medium without suffering very serious inconvenience and loss, and, unfortunately, these trials to credit always come suddenly, when the country is least prepared and least able to bear them. Not that the country is deficient, but that the Bank of England is unequal to the

occasion; not that the credit of the country is shaken, but that confidence in the Bank of England is wanting. It is the helpless state of the Bank of England in the time of need that causes general distrust, and it is this distrust that causes the loss of credit and the *scarcity of money*. It is the want of confidence in the Bank of England that increases the demand for money at the very time when to meet this demand is most inconvenient to the Bank, and the demand continues to increase with the inability to meet it. In the fear of further difficulties, every one endeavours to secure for himself a larger reserve of money than his wants require.

Thus the evil is aggravated to an extent far exceeding a true proportion to the real cause of the evil, and sometimes to the extent of a money-panic. All this might be prevented if the Bank of England, in the first instance, could only make the supply of notes equal to the demand. With the return of confidence all the difficulties disappear, and credit is restored, thereby showing that it is not capital, but confidence, that is wanting. With confidence, the capital re-appears, the rate of interest falls, and the Government Funds rise.

Thus are born and thus die those monetary disturbances the origin of which is so mystified,

though so easily accounted for in the defective organisation of credit.

With a Bank of England established on the broader basis of a larger credit capital and a large actual capital, and regulated on simple and intelligible principles, this state of things, so disastrous to the country, never could arise.

One of the grandest steps in progress that can be taken is, by simple and natural means to confine within moderate limits the rate of interest for the capital required for the trade and industry of a country.

That step yet remains to be taken by this country; and now comes the important question, how to construct the Bank of England so as to make it faithful to its mission for protecting the trade and industry of this country, of which the Bank of England ought to be the guardian.

## CHAPTER X.

### THE BANK OF ENGLAND: AND THE ORGANISATION OF CREDIT.

HAVING considered the Bank of England as at present constituted for the disorganisation of credit, the more important question next comes to be considered,—how the Bank of England may be constituted for the organisation of credit.

It is undeniably true that, the rise in the price of loanable capital is due, in a great measure, to the growing availability and diffusion of English capital for foreign purposes, and that this growing availability and diffusion are, in their turn, the consequence of the new organisation provided by the comparatively sudden and vast expansion of the Joint-Stock system, and of the birth of so many financial companies capable of undertaking the largest operations.

It is also true that—'At first sight it may seem that, the searching competition of the new Companies, which sucks into the money-market and condenses into large and available streams

countless rills of savings scattered up and down the country, which were not reached before, ought, by bringing more unemployed capital into the market, to lessen its value and lower the rate of interest.'

It is also true that, such would be the case, but that the distributive and diffusive power of the new companies is even greater than this attractive and condensive power. That the centripetal force by which our home capital is made to gravitate towards our home centre is vastly increased by the new organisation, and that this of itself tends to lower the rate of interest. But that the centrifugal force by which, under the new system, capital, once condensed, is scattered all over the world instead of being allowed to accumulate at home, is greater still, and thus the rate of interest, instead of being lowered is raised, and the rise in the rate is probably, therefore, not temporary, but permanent.*

Because all this is true, it is, therefore, true that the Bank of England, which was framed and constituted under another and different state of things, is ill adapted to the present state of things; and that the evils of its constitution, then less visible and less felt, were more bearable; now more visible and more felt, are less bearable.

As before shown, the rise in the rate of in-

* Edinburgh Review, January, 1865, No. 247, page 227.

terest is but the sign of the evil. The evil is in the disturbance of the equilibrium in the value of money between foreign countries, and the rate of interest rises to restore the equilibrium.

This disturbance has always existed, more or less, though formerly less noticed, because less perceptible; but when extraordinary calls for capital began to be made for correcting this difference, then the consequent disturbance of the currency began to be felt in the rise of the rate of interest.

Any attempt to prevent those calls from being answered must be useless.

The trade in capital, or savings, must be as free as the trade in any other commodity; and freedom of trade assumes protection to traders against monopolies, as well as against restrictions and impositions.

Protection to Traders is quite a different thing from protection to Trade. Deprive the trader of the means of obtaining money necessary for carrying on his trade, and you are bringing down upon the country all the evils of *protection* in its worst form, for you are helping one class against another,—the large capitalist against the small capitalist. So, as you make it difficult to obtain money, as a means of carrying on trade, you are, in the same proportion, protecting one class

of traders against another class, and their loss is the loss of the whole community.

Such is, in effect, the present working of the Bank of England. More or less it has always been so, but much more so since the passing of the Bank Act of 1844.

Though it be admitted that, raising the rate of interest, in the country where capital is abundant, is one of the means of equalizing the value of money between that country and other countries where capital is less abundant, yet it is denied that this is the best means, or one of the means necessary or expedient for the Bank of England.

Entrusted by the country with a fictitious capital,—having no real existence,—and allowed the use of it free of cost,—for such is, in effect, the special and exclusive privilege to the Bank of England of the gratuitous issue of its notes to the amount of £14,650,000, there can be no good reason why the whole benefit of the credit so acquired should not be secured to the country.

In this arrangement, for the sole purpose of economising gold, it was no part of the original object or intention to bestow a benefit on the Bank of England. The sole object and intention was to save so much capital for the benefit of the country.

The profit of the Bank is another question, and is otherwise provided for.

It cannot be for the benefit of the country to allow the credit so acquired to be used by the Bank for its own profit.

This has nothing to do with the question,—whether or not it be necessary for the Bank of England to raise the rate of discount for its own protection. That is another question; but, before that can be considered, it ought to be shown that the Bank of England, properly constituted, would stand in need of any such precautionary measure. If any state of circumstances can be shown which would render protection needful, that will be evidence of defect in the constitution of the Bank. That the Bank of England is now exposed to many such circumstances has been already shown. But the Bank of England would be no longer exposed to any of these circumstances if established on the basis and conducted on the principles following:—

1. The repeal of the Bank Charter Act of 1844.

2. The Government Debt to the Bank of England to be paid.

3. The Credit Capital of the Bank of England to be raised to £40,000,000.

4. All notes of the Bank of England beyond the amount of £40,000,000 to be issued against equal value in gold and silver coin and bullion, in

any proportions, but all notes to be payable in gold only on demand.

5. All other Banks of Issue in England and Wales to be prohibited from issuing their own notes from and after the day of .

6. The distinction between the Issue Department and the Banking Department of the Bank of England to be abolished.

7. No Bank note to be issued under the value of £5.

8. The Bank of England Note to be declared a legal tender throughout the United Kingdom for all sums of Five Pounds and upwards;—Except by the Bank of England, and its Branches.

9. Silver coin of the realm to be declared a legal tender under £5.

10. All gold and silver bullion, brought to the Royal Mint for that purpose, to be coined in the coin of the realm *free of charge.*

11. The Bank of England to be exempt from Stamp Duty or Composition on its notes.

12. The Bank of England not to discount at a higher rate than 4 per cent.

13. The Bank of England not to lend money to the Government, or to any person or persons.

14. The Bank of England to account to the Government for all its banking profits on its Credit Capital.

15. Weekly Accounts of the Bank of England to be published in the *London Gazette*, in the form given.

16. The Bank of England not to allow interest on Deposits, Public or Private, and not to use deposits, as capital of the Bank, for discounting bills or purchasing gold.

17. The Bank of England to be allowed by the Government £250,000 per annum, for loss of profits on discounts, and for management of the Public Debt.

18. The Governor, Deputy Governor, and Directors of the Bank of England, to receive, for their personal services, from the Government, the following yearly allowance :—

| | | |
|---|---|---|
| The Governor . . | £2,000 | per annum. |
| Deputy Governor . . | 1,500 | ,, |
| Each other Director . | 1,000 | ,, |

19. These privileges to be continued to the Bank of England until twelve calendar months' notice in writing be given by the Government for rescinding or varying the terms on which these privileges are granted.

Similar privileges to be conferred on the Banks of Ireland and Scotland, with a proportionate Credit Issue to each : Or, if these Banks be merged in the Bank of England, (which might be better), then the Credit Issue of the Bank of England to be raised to £50,000,000.

## Form of Weekly Account.

BANK OF ENGLAND.

An Account of the Bank of England pursuant to the Act for the Week ending on the day of 1865.

| | £. | | £. |
|---|---|---|---|
| Notes in Circulation . . | | Government Securities . | |
| Seven Day and other Bills | | Notes in reserve . . . | |
| Proprietors' Capital . . | | Gold and Silver Coin . . | |
| Rest . . . . . | | Bullion . . . . . | |
| | £ | | £ |

Bank Rate of Discount per Cent.

(Signed) Wm. Miller, Chief Cashier.

o 2

"When the Bank of England is established on this basis, and conducted on this principle, it will be time enough to consider any measure found necessary for its protection.

An examination of these terms may show that, they place the Bank of England beyond the reach of danger under all circumstances which can be properly taken into calculation, though the time may come, and probably will, when both the actual and the credit capitals will be required to be enlarged.

The principle, if true, will be applicable to all time.

The foregoing outline of the proposed new Bank Charter Act hardly requires further explanation, but each item of the terms will now be shortly reviewed, with a few comments, for the purpose of directing attention more particularly to the nature and effect of the proposed changes.

1. The repeal of the Bank Charter Act of 1844.

2. The Government Debt to the Bank of England to be paid.

This will be a payment or a transfer of £11,015,100, and if a payment will be so much in reduction of the National Debt.

If the possession of an actual and independ-

ent capital by the Bank of England be essential for effecting the proposed objects, it only remains to be shown that these objects would be for the benefit of the community.

The possession by the Bank of an independent capital of this considerable amount would be, on many occasions, more effectual than curtailing the notes for operating on the market of gold, to stop the drain of gold.

If the payment of £11,015,100 be too large a sum for the Government to meet without a loan, this could be effected simply by a transfer of Government Securities, and would be no addition to the National Debt.

But it would be a very expedient course, if the Government were to take up a further loan and lend it to the Bank at 3 per cent. to make up the real capital of the Bank of England £20,000,000, and the credit-capital £40,000,000.

3. The Credit-Capital of the Bank of England to be raised to £40,000,000.

From the imperfect information before the public, it is difficult to ascertain, precisely, the *maximum* and *minimum* amount of Bank-notes in circulation, in the United Kingdom.

But the following estimate may be sufficient for the present purpose.

| | |
|---|---|
| The authorised Issues of Notes by Private and Joint-Stock Banks in England and Wales is . . | £8,488,428 |
| Irish Banks . . . . . | 6,354,494 |
| Scotch Banks . . . . . | 3,087,209 |
| Average Issue of the Bank of England . . . . . | 21,000,000 |
| | £38,930,131 |

This may be sufficient to show that the requirements of the Kingdom, for a Bank Note Circulation, are not less than £40,000,000. If so, there can be no more reason against the Bank of England issuing Forty Millions than Fourteen Millions of Credit-notes, especially if all other Banks in England and Wales be prohibited from issuing notes; or for enlarging the amount to Fifty Millions, if the issue of Notes for the United Kingdom be confined to the Bank of England.

With a credit capital of £40,000,000 or £50,000,000, costing nothing, and an actual capital of £14,553,000 or £20,000,000, the Bank of England would be equal to all occasions for regulating the currency of the country.

4. Notes beyond the credit capital to be issued to any amount against equal value in gold and silver coin and bullion.

As the bank-notes cannot depreciate as long as the securities remain good, the restriction on the issues may be safely enlarged from time to time to meet the requirements, subject to this condition.

5. All other Banks of Issue in England and Wales to be prohibited from issuing their own notes from and after the day of .

For the reasons already given, there can be no injustice in putting a stop to this system, which never ought to have been permitted.

The notes of a private bank, not being legal tender, are of the nature of a spurious coinage, and are, practically, forced upon the ignorant and unwary, who have not always the option of refusal.

Any temporary credit resting on this insecure foundation must be subject to great variations, and to shocks which must disturb the monetary system of the country.

Experience has proved the truth of this theory.

If bank-notes be permitted by the Government to pass current for equal value with coin of the realm, such equal value ought to be made secure on the responsibility of the Government.

In the year 1844, when the Bank Act passed, there were 208 private banks, and 72 joint-stock banks of issue, and the privilege of issuing notes

was then permitted to those banks not only without any inquiry into their solvency, but also without requiring any security for the payment of those notes.

This was an inexcusable oversight on the part of the Government and the Legislature. The privilege to those banks, instead of being withdrawn, was continued, and, by limiting the amount of notes to be issued by each bank, was sanctioned.

The Act authorised country banks to commute their issues of notes, and to substitute notes of the Bank of England; but, the value of money being then 5 and 6 per cent., few banks availed themselves of this permission to surrender their valuable privilege for 3 per cent.

The principle on which this privilege was confirmed was unsound, and was clearly opposed to the principle of the Bank Act of 1844. It must, therefore, be assumed that reasons, known only to the Government, prevailed on that occasion against the judgment and intention of the Government, and against the true interests of the country.

But though the Act of 1844 so far confirmed the privilege of the issue of notes to those banks which then enjoyed it, yet the Act limited the exercise of that privilege, and in no way guaranteed it.

But a Bill, now before the House of Commons, brought in by the present Chancellor of the Exchequer, Mr. Gladstone, proposes to grant a lease of the privilege to the banks now holding it, for the term of 15 years, ending 1st January, 1880, as a beneficial interest to those banks, against the interests of all the rest of the community.

The same unknown reasons which prevailed with the Government of 1844, may prevail with the Government of 1865; but, if this Bill pass into an Act, it will be another misfortune for the country.

Before the Banks of issue can establish their claim to compensation for the loss of their privilege of issue, they should show that they have a vested interest in that privilege; and if the Government may terminate, as it may, by twelve months' notice, the privilege of the Bank of England as a bank of issue, there can be no hardship if the Government exercise the same power towards the other banks of issue.

This privilege ought to cease at the expiration of the twelve months' notice, as in the case of the Bank of England, and if no right of property can be established in the privilege, no ground for compensation can exist if the privilege be withdrawn.

It is not easy to see on what ground a claim

for compensation can be supported, for the Act itself, section 25, provides, "that all the compositions payable to the several bankers, mentioned in the schedule hereunto, marked C, and such other bankers as shall agree with the said Governor and Company to discontinue the issue of their own bank-notes, as aforesaid, shall, if not previously determined by the act of such banker as hereinbefore provided, cease and determine on the 1st day of August, 1856, or on any earlier day on which Parliament may prohibit the issue of bank-notes."

Nor can the issuers of bank-notes complain of hardship if deprived of their privilege without compensation, for they have not been without warning that this privilege would not be lasting. At present, the hardship is altogether on the public, who are forced to take these notes without any security for their payment.

6. The distinction between the Issue Department and the Banking Department of the Bank of England to be abolished.

The reasons for abandoning this distinction have been already given.

If the separation of the Issue Department from the Banking Department had not been proved to be injurious, that it has been proved to be unnecessary would be a sufficient reason

for discontinuing this distinction, the sole and avowed object being to secure the convertibility of the note, which has never been and never need be in danger.

7. No bank-note to be issued under the value of £5.

This question also has been sufficiently considered and answered to render further remark unnecessary.

There are arguments for and against £1 notes, but there seems to be no sufficient reason for a change.

8. The Bank of England note to be a legal tender throughout the United Kingdom for all sums of £5 and upwards; Except by the Bank of England, and its Branches.

There is no reason for any change in this existing arrangement.

9. Silver coin of the realm to be a legal tender under £5.

This is a change of considerable importance, and in accordance with the ancient constitution and usage in this country.

The reasons given for depriving the People of the full benefit of a Silver Coinage, as formerly enjoyed by them, are quite unintelligible.

Until the reign of Henry III., the Currency of the country was entirely silver. The first coin was

the silver Penny, which contained the 240th part of a Pound of 12 oz., each ounce being 20 dwts.

Twelve of these Pennies were equal to one Shilling, and twenty Shillings to the Pound, sterling. The Shilling, however, was then only a money of account, and remained so until the reign of Henry VII., when he introduced the Sovereign, or Real, at 20*s.*, and made the shilling an effective coin.

10. All gold and silver bullion brought to the Royal Mint for that purpose, to be coined in the coin of the realm *free of charge.*

This, as already shown, is an ancient constitutional right in the People, of which they have been most unconstitutionally deprived.

To restore this right is as much for the interest of the Government and the Bank of England as of the People.

The additional supply of silver, in unrestricted quantity, must strengthen the basis of gold for the security of the Note.

11. The Bank of England to be exempt from Stamp Duty or Composition on its Notes.

This is only renewing the existing law, which exempts the Bank of England from the Stamp Duty.

12. The Bank of England not to discount at a higher rate than 4 per cent.

"The proper function of the Bank of France," said the first Napoleon, in 1810, is "to discount all commercial paper at 4 per cent.," and he threatened to deprive the Bank of its privileges if this end were not accomplished.

"This sentiment," says the writer of a leading article in the *Times*,*—"This sentiment on the duty of a banking corporation must seem to sound economists one of the crudest utterances possible; it could only come from a man whose recklessness and ignorance were alike superlative; yet M. Michel Chevalier has perceived in it the intuition of a genius which understood at a glance the nature of commerce."

Whatever may be thought of the first Napoleon as an economist, few who know M. Michel Chevalier will regard him as "a man whose recklessness and ignorance are alike superlative."

The same writer, as if to make the boldness of his *superlative* declaration the more remarkable, adds:—"A pamphlet recently published in Paris, shows that M. Chevalier is not the only Frenchman who accepts the *dictum* of the first Emperor. M. Isaac Pereire, the colleague in other years of M. Chevalier, has through all the mutations of his subsequent career preserved enough of the old leaven of St. Simonianism to

* The *Times*, 10th December, 1864.

insist that it is the duty of the Bank of France to keep a flow of money available for every customer at a fixed rate of interest. Not all the experience of practical life, won as a railway manager or as the chief director of the Crédit Mobilier, has served to eradicate his early delusions. The universal Bank, giving universal credit, is still an object of desire, and M. Pereire betrays no suspicion that the result of its action would be universal insolvency. He is even eager that the experiment should be immediately tried."

This writer *betrays no suspicion* about his own knowledge, but this latter sentence betrays *superlative ignorance* of what he is writing about.

The *universal bank giving universal credit*, is not *still* and never was an *object of desire* either to M. Chevalier, or to M. Pereire, or to anybody else.

As to the rate of interest, that was fixed by law in this country for several centuries, and although the law was modified in successive reigns from the time of Henry the Eighth, it was totally repealed only in the present reign. To fix the *maximum* rate of interest for the loan of money was, no doubt, an absurdity, but that has nothing to do with fixing the *maximum* rate of discount.

But the writer in the *Times* does not seem to

know that *discount* has nothing to do with *credit*, in the sense in which he uses credit.

Discounting a bill of exchange means simply buying the bill, and the only credit in the transaction is that the bill will be paid when due. As when a man buys a horse warranted sound, he buys it on the credit of the warranty. This writer seems to think it as absurd to fix the *maximum* rate per cent. for the purchase of a bill of exchange, as to fix the price for the purchase of a loaf of bread.

He says, in his next sentence:—"Why not extend the principle of fixed rates of payment to other commodities? We remember that our logical neighbours have not scrupled to do so, and that till lately the bakers of Paris could not sell their bread at a price exceeding a fixed number of centimes per kilogramme."

This makes clear the meaning of the writer, and, at the same time his utter ignorance of what he is writing about. He cannot distinguish between the price of money, and the price of commodities. He treats of money for the transfer of commodities, as he treats of the commodities so transferred, and he assumes both to be subject to the same law. He does not see that the money is merely an artificial medium, used for convenience, of no intrinsic value, but provided and

regulated by the State for the convenience of the community; and he thinks that the State has no more right and no more power to fix the price of that convenience, which the State alone has provided, than to fix the price of commodities, with which the State has nothing to do, and over which the State has no control.

He says:—"It is somewhat difficult to understand how a man of the practical experience of M. Isaac Pereire could hope to fix a *maximum* of the rate of interest." He seems to have forgotten that, such a *maximum* was first settled by law in England at 10 per cent., 37 Henry VIII., 1546; that this law was repealed by Edward VI., but restored by Elizabeth; that interest was reduced to 8 per cent., and the word *interest* was first used instead of *usury*, 21st James I., 1624; that it was reduced by the Rump-parliament to 6 per cent., and so confirmed at the Restoration; that it was reduced to 5 per cent., 13th Anne, 1714, at which rate it remained until modified in subsequent reigns; and that the rate of interest in Ireland was 6 per cent., regulated 14th George III., 1773. So completely was the *maximum* rate of interest fixed that, a higher rate than the legal standard was usury, and punishable as such, until all this absurdity was totally repealed by 17th and 18th Vict., cap. 90.

The Writer in the *Times* seems also to have forgotten, or not to have known that, formerly a *maximum* rate of discount was fixed by law for the Bank of France, and is still fixed by law at six per cent. for the Bank of Belgium. He seems to consider this an impracticable absurdity,—as an interference with the natural law which regulates supply and demand,—and he seems to have some confused notion that this is inconsistent with the principle of free trade. He does not distinguish between a fixed rate of interest for the loan of money, and a fixed rate of discount for the purchase of bills of exchange. He does not seem to see the difference between lending money and buying debts, nor to distinguish between debts so created, and debts created by the transfer of commodities, the former concerning the question of *credit* only, the latter of *market-price* only.

Here is no interference with market-price, or with supply and demand of commodities, but only with credit, for keeping prices steady to prevent interference with supply and demand. The *maximum* rate of discount is, therefore, the *minimum* rate or price of money, and, as legal tender money is a monopoly in the hands of the Government, there can be no market-price, though there may be various prices in the money-market.

It is, therefore, no wrong to any one, and no infringement of a natural law if the Government fix the *maximum* rate of discount, and the *minimum* rate or price of money, called the Bank rate, provided the *minimum* be fixed at the lowest rate which the welfare of the State permits.

In this way the Government holds the monopoly for the benefit of the country; without any interference with money-dealers, who are free to fix any price they please on their own money; but, at present, the Bank of England holds the monopoly for its own benefit, and to the loss and injury of the country, which is left at the mercy of the Bank, and other money-dealers.

This is very different from fixing the price of bread; but the tendency is to keep down the price of bread and all other commodities, and to raise the rate of wages by increasing the demand for labor in proportion with the increasing trade and industry of the country.

13. The Bank of England not to lend money to the Government, or to any person or persons.

It is not consistent with the objects of the Bank of England, as a national bank, that any portion of its capital should be placed out of reach for an indefinite time.

Experience may have taught the Bank of England that this practice is inexpedient.

The Bank of England has already experienced the inconvenience of being Mortgagees in possession of Blast Furnaces, Copper Smelting Works, and Tin Plate Manufactories, and Collieries, and of accounting to the Court of Chancery for the due management of them.

Speculations of this kind, or of any other of a like kind, ought never again to be within the power of the Bank of England, as a National Bank for the distribution and regulation of the money of the country.

14. The Bank of England to account to the Government for all banking profits on its credit capital.

This the Bank now does, or professes to do.

15. Weekly Accounts of the Bank of England to be published &c.

This the Bank now does, but in a very confused manner.

In the proposed Form of the Weekly Account (see page 195) all the information, which concerns the Public, is there given simply and intelligibly. Under the new conditions, the Public will have no more concern with the ordinary banking transactions of the Bank of England than with those of any other Bank.

The Public will have nothing more to do with the Deposits, Public, or Private, in the Bank of

England, than with the cash balances on the private accounts. These deposits, therefore, will have no place in the Weekly Account.

"Other Securities," representing the Private Deposits, and "Dead Weight Annuity," representing a private transaction of the Bank with the Government, and which will terminate in 1867, are, for the same reason, omitted in this Account.

The Bank of England will deal with its own private affairs as other Banks do, and there will be no longer any reason for making them public, when no longer mixed up with the public affairs.

It is not proposed to interfere in any manner with the Bank of England in the conduct of its private banking affairs, but only to prevent the Bank from mixing up its private affairs with the public affairs, the terms of their Charter being that, the whole of the £40,000,000 guaranteed by the Government, and the whole of the Capital of the Bank, be set apart exclusively for the public service, under the direction of the Bank of England.

If that had been the condition of the Bank of England last year, the average rate of discount might have been 3 per cent. instead of upwards of 7 per cent.

The following is the new Form of the Weekly Account, filled up with the figures in the Weekly Account of the 28th Dec., 1864, so far as those figures are applicable to the new Form. The quantity of bullion retained by the Bank cannot be here given, as that would be regulated by the ordinary demand.

The actual Account, as published by the Bank of England, for the Week, ending the 28th December, 1864, is also given for the benefit of the comparison.

## The Weekly Account of the Bank of England, as it would have been under the Proposed New System, on the 28th December, 1864.

### Bank of England.

On Account of the Bank of England pursuant to the Account for the Week ending on Wednesday the 28th day of December, 1864.

| | £. | | £. |
|---|---|---|---|
| Notes in Circulation | 19,402,985 | Government Securities | 40,000,000 |
| Seven Day and other Bills | 437,450 | Notes in Reserve | 20,597,015 |
| Proprietors' Capital | 14,553,000 | Gold and Silver Coin | 714,499 |
| Rest | 26,918,079 | Bullion | |
| | £61,311,514 | | £61,311,514 |

Bank Rate of Discount 2 per Cent.

(Signed) Wm. Miller, Chief Cashier.

## *Bank of England.*

An Account pursuant to the Act 7th & 8th Victoria, cap. 32, for the Week ending on Wednesday, the 28th day of December, 1864.

### ISSUE DEPARTMENT.

| | | | |
|---|---|---|---|
| Notes Issued | £28,036,475 | Government Debt | £11,015,100 |
| | | Other Securities | 3,634,900 |
| | | Gold Coin and Bullion | 13,386,475 |
| | | Silver Bullion | |
| | £28,036,475 | | £28,036,475 |

### BANKING DEPARTMENT.

| | | | |
|---|---|---|---|
| Proprietors' Capital | £14,553,000 | Government Securities (including Dead Weight Annuity) | £10,824,542 |
| Rest | 3,356,254 | Other Securities | 19,786,541 |
| Public Deposits, including Exchequer, Savings Banks, Commissioners of National Debt and Dividend Accounts | 8,601,125 | Notes | 8,633,490 |
| | | Gold and Silver Coin | 714,499 |
| Other Deposits | 13,040,643 | | |
| Seven Day and other Bills | 437,450 | | |
| | £39,989,062 | | £39,989,072 |

(Signed) Wm. Miller, Chief Cashier.

Dated 29th December, 1864.

16. The Bank of England not to allow interest on Deposits, Public, or Private, and not to use Deposits as Capital of the Bank, for discounting bills, or for purchasing gold.

The Bank of England does not now allow interest on Deposits, but does use these deposits in discounting, and the rate of discount must, therefore, fluctuate with the varying amount of these deposits.

This practice, quite proper in private and joint-stock banks, cannot be justified in the Bank of England, which ought to be at all times a national resource for the community, as free as possible from the control or influence of the large Capitalists.

It is impossible for the Bank of England, however constituted, to be entirely free from such influence. But the Bank of England may be so constituted as to be always able, either by open competition or by the drawing in or temporary suspension of its discount operations to counteract, in the end, any combination of capitals which can, practically, be brought to bear against it.

Under the present system, the Bank of England combines with the capitalists, and assists them in producing the very consequences, which it ought, as far as possible, to prevent.

Instead of this, the Bank of England is com-

pelled, for its own preservation, to maintain the high rate of discount, as the only means for bringing back the gold, which the Bank itself has, by its operations, been assisting to send away.

Under the present system, when loans are contracted with foreign powers, the effect is thereby to tax the whole trade of the kingdom. However plentiful money, or paper, may be when the loan is contracted, as soon as the gold is wanted to pay the instalments up goes the value of money one or two per cent. This is so much abstracted from the profits of the trading community, who are thus made to contribute to the loan, whether they like it or not. The Bank of England, without capital, has no alternative but to raise the rate of discount. Accordingly, when gold is demanded for notes, the Bank of England, to save the gold, begins to curtail the issue of notes, and, at the same time, by raising the rate of discount, curtails the trade of the country. The Bank, in effect, says to the country;—'If you will oblige us to pay our notes in gold, we will make you pay the difference between paper and gold, because we have lent all our capital to the Government, and we cannot stand this drain of our gold.'

The chief difference between the Bank of England, and the unfortunate British Bank is, that

the British Bank lent all its capital to its own Directors, and the Bank of England lent all its capital to the Nation.

But, under the proposed system, these runs for gold will be extraordinary circumstances, of rare occurrence, and the Bank of England will have the power, if not to prevent them, at least to shorten their duration, and mitigate their effects. The Bank rate of discount can never exceed 4 per cent., and the average may be kept between 2 and 3 per cent.

17. The Bank of England to be allowed by the Government £250,000 per annum, for loss of profits on discounts, and for management of the Public Debt.

It is quite proper that a liberal allowance should be made to the Bank of England for its services.

18. The Governor, Deputy Governor, and Directors of the Bank of England to receive for their personal services, from the Government, the following yearly allowances:

| | | |
|---|---|---|
| The Governor . . . | £2,000 | per annum. |
| Deputy Governor . . | 1,500 | „ |
| Each other Director . | 1,000 | „ |

It will also be quite proper that those who are entrusted with the important and responsible duty of conducting the affairs of the Bank of

England should be remunerated for their services. It is an anomalous state of things that, their services are now gratuitous.

19. These privileges to be continued to the Bank of England until twelve calendar months notice in writing be given by the Government for rescinding or varying them, or the terms on which they are granted.

On a subject of this vital importance to the country, the Government ought to be able to release itself from the whole or any part of its engagement with the Bank of England, by giving twelve months notice of such intention.

Such is the short outline of the proposed Bank Charter Act for the Organisation of Credit in England.

The writer of the able article entitled "Seven Per Cent.," in the Edinburgh Review for January, 1865, before referred to, has, evidently, some experience on the subject, and is, probably, a Capitalist, connected with the City. He seizes hold of the weak points in M. Pereire's positions with acuteness, but seems to treat any suggestions for relieving or mitigating existing evils as useless and absurd, and even to deny the existence of any evils.

But, probably, as is often the case, especially on subjects of this nature, there is some mis-

understanding of meaning between the reader and the writer.

This writer seems to deny that there is any evil in the want of loanable capital, if that want have been caused by the drawing away of surplus capital to foreign countries, for the gain of higher interest than can be obtained in this country.

That this is the expressed meaning seems clear from the following sentence :—

"Notwithstanding the events of the past year and the *temporary* pressure which England has suffered under the new competition for loanable capital, we are disposed to believe that no country will in the end reap greater advantages from it than England herself, who, of all countries has the greatest capital at command."

*Temporary* pressure is an indefinite term, but this article commences by observing that,— "money has been dear beyond precedent throughout the year, 1864, and the average rate of the year exceeded *seven per cent.*"

This is *temporary*, and so it would be if it were ten years; but one year is a long time for so high a rate of interest in this country, where that is considered a good trade which brings a profit of 10 per cent.

But, if it be meant that, an average rate of interest at 7 per cent. is beneficial to the country,

that is a new and interesting fact, and deserving of something more than the unsupported assertion of the writer, whoever he may be, and however eminent in the City of London.

But, by whomsoever this assertion is made, many will still continue to think that, an average rate of interest exceeding 7 per cent. on twelve months, is a great evil, as being very injurious to the trade and industry of this country, however beneficial to the owners of loanable capital.

If the falling off in the productions of this country in the year 1864, be any measure of the country's loss, then that loss must have been much greater than any possible gains to the capitalists.

But it is one thing to say that there is no remedy for this evil, and another thing to say that, there is no evil to be remedied.

The writer goes on to add:—"But assuming it to be a disadvantage, the question arises, is it one with which we ought to attempt to deal if we could, or could if we would? We are prepared to answer both questions in the negative."

This seems to be a form of expression adopted less for the sake of the meaning than of the antithesis.

It, surely, cannot be the meaning that, we

ought not to deal with a *disadvantage*, if we can deal with it successfully!

It is clear that the writer could not deal with it successfully; but, if he could, why should he not?

However, he has not made the attempt, and he is unable to understand how the law which makes loanable capital travel from one country to another, "may be modified or neutralised."

But, if it be not possible to neutralise that law, still it may be possible to modify it, by counteracting it, and so mitigating its force and duration.

How have the gigantic Joint-stock banks competed, and so successfully, with the Bank of England.

The answer is that, these banks, with their immense capitals, have afforded greater facilities to enterprise and industry than the Bank of England.

But, to make great dividends for their shareholders was the object of these banks.

That was *their* mission.

They have, therefore, very properly sent their capitals where they would bring back the largest returns.

They have sent their capitals to Egypt, and Turkey, and India, preferring the 15, or 18, or

20 per cent., there, to the 3, 4, or 5 per cent. in London.

The Bank of England has been used in like manner, for the same purposes, and could not help being so used. But that is not *its* mission.

The mission of the Bank of England is not to afford facilities to foreign enterprise and industry, but to home enterprise and industry.

The Bank of England ought not to be conducted on the same principles as private and joint-stock banks, their objects being quite different.

The laws of trade, which properly regulate the latter, have no application whatever to the former.

It is, therefore, a total misapplication to apply the same reasoning to both.

The reasoning which may be quite correct when applied to the one, is quite wrong when applied to the other.

If so, it follows that, the Bank of England must be taken out of the course of the natural law, which serves a general purpose, and made subject to an artificial law to serve a special purpose.

The private and joint-stock banks were established for the general purpose of trade profit, and need only to follow the natural course of trade.

There is nothing artificial about these banks. The whole system is open, plain, and straightforward, consistent with the natural course of trade. The object is to bring together loanable capital, and to deal with it in the manner most profitable to the owners.

This is a perfectly legitimate object, but such is not, or ought not to be, the object of the Bank of England.

The Bank of England is, or ought to be, established for the one object only of serving the interests of the country, by affording all possible facilities to its trade and industry.

Everything about the Bank of England is artificial. Even its capital is artificial. Its constitution is artificial. Its system is artificial. Its very material is artificial.

The non-natural and the natural are in a constant state of antagonism.

The private and joint-stock banks are constantly working in combination against the Bank of England, and this combination is powerful enough to weaken the Bank of England and to render it powerless for its most important duties.

This combination, at its pleasure, drains the Issue Department of the Bank of England of its reserve of gold, and the Banking Department of its reserve of notes; and the Issue Department

costs the country, as already shown, in direct loss, upwards of a million and a half, sterling, a year, which is a sheer loss, without the smallest benefit.

The Bank of England is, therefore, made to co-operate with the capitalists, against the trade and industry of the country, not only by making the Bank helpless at the times when help is most in need, but by making it, as far as it can be made, active in aggravating and prolonging those times of distress at home.

If the Bank of England cannot be made to help the distress at those times, it can, at least, be made to prevent itself from aggravating the distress.

There never was a money-panic which did not originate in fear. for the want of the bank-notes, and when that fear was removed the panic always ceased.

And what was the cause of that fear, but the drain of notes for hoarding, or for getting at the gold?

If the supply of Bank of England Notes had been ample, there would have been no fear on that ground, and no hoarding.

If the Bank of England, with an ample and independent capital of its own, had come into competition with the capitalists in the general market for gold, by selling 2 or 3 millions of

Government Stock, and investing the produce in gold, at the same time discounting freely at 4 per cent., there never would have been a money-panic. Or, if the occasion had required repetitions of that operation, the drain of gold must have ceased under such repeated operations, as no longer profitable to the exporters. Or, if stronger measures were required, the Bank of England might have sold Government Stock, cancelled the notes, and refused to discount.

In such a state of things there would be no danger, nor even the apprehension of danger, to the Bank of England.

And why should not the Bank of England be in a condition to exercise that power at the discretion of honourable, experienced, and impartial men of business, whose duty would be so clear and simple that, ordinary intelligence would suffice for its due performance?

This is a question not to be answered by sneering sarcasms and well-turned sentences on general principles, which have no application to the real question.

Here is nothing advanced inconsistent with general principles, and the conclusion arrived at is confirmed by all that is known from experience.

Cheap loans are not dependent on the rate of

discount, but on the supply of capital and the demand for it, and these govern the rate of discount.

Cheap loans, therefore, are dependent on the productive powers of the country, and it should be the first duty of every country to encourage those productive powers by meeting the requirements for the trade and industry of the country.

This is only to be done by giving perfect freedom to labour, and every possible facility for its free exercise, by relieving it from every kind of imposition, direct and indirect, by not taxing its produce until the profits have been realised, and by providing, at all times, easy means for the employment and remuneration of labor.

It is manifest that all deductions from the wages of labor, by direct or indirect taxes, for State or other purposes, are infringements upon the freedom of labor, and impediments to its productive power, and that this is a loss to the whole community.

It is, therefore, the first duty of the Government to give perfect freedom to labor, and to afford every possible facility for obtaining the means for the employment and remuneration of the laborers.

In this view of the question, no words can be necessary to impress the importance of having a

National Bank, established and conducted on such principles as will, at all times and on all occasions, support the credit of the country, by giving all possible facilities to the employment of capital, for the benefit of the trade and industry, by keeping down the rate of discount, or the price of money, at the lowest possible level. Cheap money and Free Trade only are required to make this country the centre for the trade of the world.

This is the great result to be expected from the Bank of England, established on the basis and conducted on the principles here proposed for the ORGANISATION OF CREDIT IN ENGLAND.

The same principle, if applicable to England, should be equally applicable to Ireland.

But, as regards Scotland, the case may be, in some respects, different. The experience of more than a century and a half has prejudiced the People of Scotland in favor of their own system of banking, and the success of that system through so long a period of trial may be urged as a strong argument against a change.

But the proposed change in the constitution of the Bank of England, so far as making its notes a legal tender in Scotland, would afford great additional strength to all the Scotch Banks.

The Scotch Banks issue their own notes, of

the value of £1 and upwards, and the currency of Scotland consists almost entirely of paper-money, gold being regarded there as inconvenient and expensive, and Scotch-notes, though not a legal tender, are as readily received in Scotland as Bank of England notes are in England.

The paper-money issued by the Scotch Banks amounts to rather more than four millions, sterling, against which they hold rather more than half that amount in specie.

In no case have the Scotch Banks, properly so called, failed to discharge their liabilities.*

According to a Parliamentary Return, made up to the 1st of June, 1864, there were then in England and Wales,—besides the Bank of England with its 11 branches,—140 Private Banks of Issue with 208 branches; 61 Joint-Stock Banks of Issue with 441 branches; 138 Private Banks, not of Issue, with 64 branches; and 56 Joint-Stock Banks, not of Issue, with 303 branches, besides four branches in Scotland, a branch in Ireland, and 14 branches abroad.

For Ireland the Return gives 6 Joint-Stock Banks of Issue with 191 branches; 4 Joint-

* The Western Bank of Scotland was not conducted on the principles of Scotch banking. But that bank, though it failed totally, ultimately discharged its liabilities in full.

Stock Banks, not of Issue, with 6 branches, and 4 Private Banks, not of Issue.

For Scotland 13 Joint-Stock Banks, all of Issue, and having 594 branches.

| | |
|---|---|
| In England and Wales the amount of notes issued lately averaged about | £28,000,000 |
| In Ireland, upwards of | 6,000,000 |
| In Scotland, upwards of | 4,000,000 |
| Total | £38,000,000 |

Thus, the average issue of Notes in Great Britain was upwards of £32,000,000, and the total average issue of the United Kingdom was upwards of £38,000,000, and is now about £40,000,000; the gold and silver money in circulation and kept in reserve by the banks, being about twice that amount, or £80,000,000.

The total amount of specie held by the Banks of the United Kingdom, in ordinary times, is about £20,000,000; of which amount the Bank of England holds, on the average, 14½ millions; the Irish Banks rather more than 2½ millions; the Scotch Banks rather less than 2½ millions.

The deposits in the Banks of the United Kingdom are estimated to amount, on the average, to about £400,000,000; but this appears to be a high estimate.

Any further interference with the system of Banking in Scotland, which has so long and well fulfilled its object, seems to be uncalled for. This system, which has more recently been carried out with such extraordinary success by the Joint-Stock Banks, must become more prevalent, because it is formed to consult the convenience and welfare of the community, and there is no doubt that, this system will be more closely followed than it now is by all the Joint-Stock Banks.

The practice of collecting together the unemployed savings of the country, by allowing interest on the sums brought into a current account, thereby making, out of that which was lying idle and unprofitable, active capital for the profitable employment of industry, is a scheme so simple and so manifestly for the benefit of the contributors and the community as to be worthy of all encouragement.

The Scotch system most effectually encourages this practice by collecting small as well as large sums, and allowing a larger share of the profits to the contributors.

The Joint-Stock Companies adopt this system for the purpose of collection, and then divide the whole of the profits among the shareholders.

Other Banking Companies will arise for divi-

ding the whole of the profits among the contributors, when it is more generally known that, out of their capital these Companies are dividing upwards of 20 per cent. per annum, in addition to the profits on their own subscribed capital.

It will be one of the many astonishments which we have prepared for posterity, that our Legislature, by fanciful and absurd laws, has been for so many years throwing every possible impediment in the way of these Associations, formed for the good of the community, and that, after our long experience, the Legislature is still clinging to some remnants of the old absurdities.

The savings of a nation form the only portion of its capital properly available for the resources of a State. The millions of money shut up in strong boxes and hid in holes and corners by small farmers, traders, and humble artisans, is so much money lost to the trade and industry of the country.

Some notion may be formed of what these small sweepings in the mass would amount to, from the spare money of the humble classes now deposited in the Savings-banks, though this is but a poor contrivance at the best, and only a little better than none at all.

In January, 1865, these small sweepings amounted to £43,615,000.

The Government plays with this money, and the Public pays for the losing game. The Government has no good right to do so. All these Government contrivances for dealing with the savings of the People, under the pretence of helping them, are mean and shifty; and if only justice were done to the People, they would do much better for themselves than any Government can do for them. All that they require is,—a voice in the representation, and to be let alone to manage their own affairs. They would not then be taxed in their own labor, because then all taxes would be *direct*. It is impossible to suppose that they would submit to the injustice of *indirect* taxation on any of the necessaries or conveniences of civilized life if they could choose their own representatives; or to suppose that they will get rid of that injustice until they do choose their own representatives.

It is not now considered safe to trust the unrepresented working-classes with that liberty of choice, and it never will be considered safe, as long as so to exercise it is considered wrong. But, however that may be, it would be wise in the mean time to govern the country as it must and would be governed if that liberty of choice now existed, and all the people were well educated and intelligent.

Adam Smith, whom the experience of a century has proved to be a safe authority on other questions, has said on this question:—"The property which every man has in his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands, and to hinder him from employing this strength and dexterity in what manner he thinks proper, without injury to his neighbor, is a plain violation of the most sacred property. As it hinders one from working at what he thinks proper, so it hinders the others from employing whom they may think proper."

But Mr. John Stuart Mill, in his Letter to the Electors of Westminster,* says:—"I prefer a mixed system of direct and indirect taxation to either alone. If the attempt were made to raise, exclusively by direct taxation, so large a revenue as ours would still be, after all due retrenchment, I do not know of any taxes, in themselves just, which, under a strong pecuniary temptation, would not be successfully evaded. The evasions of the income-tax are already a disgrace to the national morality. I would in no case tax any of the necessaries of life, but if even a working man expends in luxuries for himself—and especially

* 'The Times,' 21st April, 1865.

stimulants—what is required by the necessities of his family, I think it perfectly just that he should be taxed on such expenditure."

If these words should be seen in the light of a few years hence, many may then think of them as some do now. Many may then see, as some do now, that a *direct* tax on the yearly value of lands tenements and hereditaments, money in the Funds, and other *realised* property, is more just, less expensive to collect, and less liable to be evaded than any *indirect* tax; and they may then see that there is more disgrace to the Government which imposed the Income Tax, with its liability to evasion, than to the national morality which evaded it. Many may then ask, as some do now, what is the rule by which to distinguish the necessaries from the luxuries for taxation; why "luxuries" should be taxed,—"especially stimulants,"—and who is to determine what is required by the *necessities* of the working-man's family? Or, what are *necessaries*, and what are *luxuries?* Sir Charles Trevelyan says,—Salt is a *luxury!* Some years hence many, for curiosity, may wish to know how Mr. Mill, himself, would have answered these questions. He has not said why he thinks it perfectly just that the working-man, or any man, should be taxed on such expenditure. But that is a tax on his own labor, and there Adam is directly against John.

But, as that universal Public Preceptor in Philosophy, Politics, and Polite Literature, 'The Saturday,' has profoundly remarked, "The truth of a true doctrine is shown by experience to be its most effective sanction, and the interest which people have in believing what is true will be found to form the best security for their believing it—a security far better in every way than the establishment of any organisation whatever.*"

But, how to overcome the little difficulty of obtaining by experience "the truth of a true doctrine," without trying it, or without "the establishment of any organisation whatever," still remains to be shown.

If the large sum of money now collected together by the savings of the working-classes, and taken under the protection of paternal Government at a loss, which the People pay, might be more usefully and with equal safety applied for the benefit of all parties, when lent out in the form of discounts and other commercial advances for giving additional employment to the working-classes, additional wealth to the trading community, and additional resources to the State, it seems desirable that we should have the benefit of experience, by the experiment of an *organised establishment* for the purpose.

* 'The Saturday Review,' April 15, 1865.

Banking, conducted by large and powerful associations of capitalists, great and small, is the agency through which this desirable distribution is effected; and this is just the agency which the Legislature has so long prevented from coming into action, and now only partially permits.

Perfect freedom of legitimate action must soon prevail, and then Joint Stock Banking Companies and other Financial Associations will be largely extended, and conducted on a broader and more liberal principle than at present.

It is also equally clear that most of the existing private Banks will merge into these larger Banking Associations. A few of the old and well established Private Banking Houses in the Metropolis will still maintain their high and honorable position, as Establishments which, for their peculiar usefulness, no Joint-Stock Banking Companies can replace.

To the class of depositors which chiefly maintain these large private Banking Establishments, the temptation of interest on their deposits will never be so strong for withdrawing their accounts, as will be the accommodation of temporary advance, for continuing to keep them where they are. Private Banks will be more ready than Joint-Stock Banks to make advances to their customers; and their customers, chiefly

land-owners and professional men, will find it suit them better to make their applications for such accommodations before the few familiar faces in the bank parlour, than before the Board of Directors in the Board Room.

The few old established Banking Houses in the Metropolis have nothing to fear from the leviathans, but all the Private Provincial Banks in Towns and Country will assuredly be swallowed up.

The Joint-Stock Banks, notwithstanding the many instances of mismanagement, are popular, and they deserve their popularity. Their principle is good, though their system may be improved; but neither principle nor system can be bad when attended with such success.

But this reasoning does not apply to the Bank of England, the purposes and objects of which should be totally different from those of private and joint-stock banks.

It is no part of the proper object of the Bank of England to collect deposits for distribution, and it is a fatal error in the Bank of England so to use them.

The proper object of the Bank of England is the distribution of its own Notes, according to the wants of the community; not for the benefit of the Bank, but of the community.

The legitimate object of other banks is their own profit; but its own profit is not the legitimate object of the Bank of England.

The duty of the Bank of England is to issue Notes, equal at all times to the demand, and payable in gold on demand. The sole object and advantage of the notes is to economise the gold.

There is no difficulty in securing the convertibility of the Note, as long as the means are possessed of obtaining an amount of gold equal to the amount of notes issued over and above the amount of notes in constant circulation.

But when, in addition to this, the Bank of England issues notes against money deposited, and liable to be withdrawn at any moment, and when these deposits amount, as they often do, to twenty millions, sterling, it is manifest that, the chief concern of the Bank of England must be its own preservation. In time of need, when these deposits are being largely withdrawn, the Bank of England must be not only unable to afford help, but must itself stand in need of help.

The rule of the Bank of England is, or used to be, that one-third of specie was amply sufficient to secure both notes and deposit, and so it would be in ordinary times. But when those

deposits are used to withdraw notes or gold,—and these are virtually the same,—then, though the gold may be safe, the notes may be wanting, and without the means of obtaining them, for the Bank may be without a sovereign or a note, and without the means of obtaining either. In that condition, the Bank of England has totally failed, as a resource for the trade and industry of the country in the time of need.

To allow deposits to be used by the Bank of England as part of its capital is a radical defect, productive of serious evils, by paralysing the power of the Bank when its help is most wanted, and producing continual fluctuations in the Bank-rate of discount?

Why are twenty millions of money deposited in the Bank of England without interest, when, with equal security, these deposits might be placed in Joint-Stock Banks at interest?

For such an apparent sacrifice there must be some compensation, and that can only be in expected favors, by preference in claims for discounts or advances.

It would be better for the interests of trade if such ground of preference were cut away, as it would be if the *maximum* Bank-rate of discount were restricted to 4 per cent., and advances by the Bank of England were prohibited.

Deposits would then find some other place than the Bank of England, and would be brought into active use for the benefit of the trade and industry of the country, instead of being used to keep up a false appearance for deceitful purposes.

The danger of allowing notes to be issued against deposits has been fully experienced and set forth in the history of the rise and fall of the Country Banks, when the Issues were unrestricted, and in that history it has been clearly shown that, deposits form no safe foundation for the issue of notes on Credit, and that no bank which receives deposits ought to be allowed to issue its own notes. This conclusion might have been arrived at with equal confidence without experience, when it is seen that these deposits, in the aggregate, come up to half the amount of the National Debt.

In principle, there is no difference between an issue of Notes on the credit of deposits, and on the credit of the National Debt; and though this may be done with perfect safety to a certain comparatively small amount, yet, when there is no restriction to the amount and the safe limit is passed, ruin is the certain consequence, as was proved by John Law, when he attempted to make the amount of loanable money equal to the same amount of debt.

Absurd as was that error, the same is still con-

tinued by the Bank of England, in using its Debts, in the form of Deposits, for the issue of Notes, payable in gold on demand.

But the use made of deposits by the Scotch Banks, and the Joint-Stock and Country Banks, for discounting Bills at short dates, and for temporary advances, is quite different, in effect, from the use made by the Bank of England, though for similar purposes.

Deposits in the Bank of England are all liable to be paid in Notes, convertible into gold on demand, and as all the available gold in the Kingdom would not suffice to pay 5 per cent. of the amount of all the deposits in all the Banks, it is obvious that this must be a very uncertain foundation for the issue of notes. It is equally obvious that, the use of these deposits by other Banks is no sanction for the use of them by the Bank of England, though for similar purposes, and that the Bank of England ought to be restricted from making use of them for any purposes, under any circumstances.

The theoretical truth, that the Bank of England is bound to supply gold for every Bank of England Note issued, involves the practical liability to supply gold also for every country bank note and for every deposit in every country bank in the kingdom.

This is a practical fact, for, as every one knows, in a run on a country bank, the local notes are met by the legal tender of Bank of England Notes; and deposits in country banks,—chiefly held for employment by their Agents in London,—are, for the most part, included in the unemployed capital in the Bank of England under the well-known entry of "Other Deposits." The run upon the country bank is, therefore, practically a double drain on the reserve of the Banking Department of the Bank of England, to redeem the local notes, and to restore the country deposits.

In the same way, an export of gold is a drain of notes from the Banking Department, and of gold from the Issue Department.

Now, as the *deposits* in the Bank of England are generally more than sufficient in amount to absorb the whole of the gold coin and bullion in the Bank of England, and as the Banking Department is never equal to all its liabilities for notes, it is obvious that, to increase these liabilities by issuing notes against *deposits*, must be contrary to the principle of the Bank Act, and also contrary to the principle of safety and sound policy; and that, under such circumstances, the Bank of England must often be compelled to advance the rate of discount for its own protection, against the possible disastrous consequences to

itself, through the large amount of private deposits, which may at any time be withdrawn in gold.

It is also obvious that, every such advance in the rate of discount is, in effect, a reduction in the value of all property, whether land, Government funds, stocks, shares, shipping, or other goods, and even labor, and is, consequently, a manifest injury to the country.

But the Act, in its operation, works a double injury to the Public, and this double injury, being incidental to the Act, and, therefore, unavoidable, is very greatly aggravated by the deposits.

The first operation of a drain of gold is always on the Banking Department, by diminishing its reserve of Notes, drawn out to be exchanged for gold in the Issue Department.

The second operation is on the Issue Department, by reducing the issue of notes in proportion to the amount of gold withdrawn.

Thus, if £2,000,000 in notes be drawn out of the Banking Department, and the notes be exchanged for gold in the Issue Department, these notes are cancelled, and the power of issuing notes is diminished in the same amount, thereby reducing the amount of notes £4,000,000. It is no answer to say that this is an improbable event, for it has happened. It is sufficient that it may happen, to show that this is a serious defect in the constitution of it.

It is, therefore, obvious that, a combined operation by the depositors for withdrawing to the amount of only £10,000,000, or half the ordinary deposits, must stop the Bank.

Here the Banking Department has lost £10,000,000 of its deposits, and the Issue Department has lost an equal amount of notes.

But the Bank of England has lost, virtually, £20,000,000, actually, all its gold, and nearly all its notes,—and has no means of getting any more of either.

This could never have happened under the old system, and is, therefore, to be attributed wholly to the Bank Act of 1844. A drain of gold now necessarily deranges the trade and industry of the country, and when the amount of notes in circulation is inadequate to meet the requirements, the mischief is aggravated by the rise in the Bank-rate of discount to 8 or 10 per cent., and further aggravated by a proportionate depression of Government Securities, whilst the prices of all colonial produce fall in far greater proportion. Thus, the commercial classes suffer in a two-fold manner from a high rate of discount. They pay double the ordinary price for discounting their bills, and they lose 20 or 25 per cent. on the sale of their goods. In the height of the money-panic of 1857, as before shown, the depreciation

of goods, especially colonial produce, was estimated at from 30 to 60 per cent. and upwards.

It is evident that the trade and industry of the country must be very seriously affected by such changes as these, when it is considered that all the trade of the country is carried on by means of bills, the holders of which get them discounted in the ordinary course of business. Every commercial enterprise and every industrial contract is liable to be affected by the Bank-rate of discount. All expected profits are varied, and, in many cases, not only profits are taken away, but manufacturers, merchants, Traders, and Contractors, are made bankrupts by an unexpected rise in the Bank-rate of discount.

Such is the effect of the Bank Act, which, practically, prevents what it was intended to provide.

It was clearly the intention of the Act to provide for increased issues of notes by hastening the return of gold, and thereby to prevent the fluctuations in the Bank-rate of discount. The Bank does hasten the return of the gold by curtailing the issue of Notes as the gold departs, but the very means taken to effect that object raises the rate of discount and produces the panic. The gold does return, but not until the worst of the crisis is past, and the commercial losses and failures are completed.

The relief comes too late, and the remedy which the Act prescribes becomes the real evil.

Faith in the notes is not shaken; but the notes cannot be obtained.

The drain upon the Bank is not caused by demands for gold in payment of the notes, as mere change.

Not the note-holders, but the depositors, cause the drain of gold.

Not the Public, but the customers of the Bank diminish its stock of bullion, and not as money, but as merchandise.

This is clearly a banking difficulty, occasioned by the separation of the Banking Department from the Issue Department. But for this separation, this difficulty would not arise. The deposits and the gold might both be withdrawn, and the note circulation might still remain the same. The gold must come back, and, if needful, the Bank might hasten the return without curtailing the note-circulation, to the loss and injury of the commercial interests.

If this be purely a banking difficulty, as it obviously is, it ought to be simply a banking question, and the community ought to be no more called upon to provide means for carrying on the business of the Bank of England, than of any other Bank.

Formerly, Bankers were Goldsmiths, or dealers in gold, as merchants.

The Company of the Bank of England are now Bankers and Goldsmiths, or dealers in gold, as merchants. They are compelled by law to provide gold when demanded in exchange for their notes. Therefore, to be Bankers, they are obliged to be dealers in gold, or gold merchants. But this is not so with other Bankers. They are not obliged to give gold in exchange for notes, and when they want gold, for the convenience of change, they go to the Bank of England for it. Therefore, if the Bank of England have not sufficient capital for carrying on its business, that is a fundamental defect in its constitution, but no reason for repairing the defect at the cost of the community. To meet the requirements of depositors by payments in gold is the ordinary condition upon which the banking business of the Bank of England is carried on, and the liability of the Bank of England to the demand of gold for notes is a necessary incident to the banking contrivance for making paper pass for the value of the gold represented. There is no hardship in making the Bank give gold in exchange for its own paper, for on that condition alone is the paper accepted as gold; but there is very great hardship to the community when they

are made to pay £1,100 for £1,000 in bank-notes, because the Bank of England happens to be short of gold.

Money being required for carrying on trade, bankers, as money-dealers, may be said to furnish the material, and though a high rate of discount be profitable to the bankers, as bill-brokers or money-dealers, yet it is very much otherwise to the commercial community, being, in fact, a transfer of a portion of the profits, in proportion to the rate of discount, from the hand of the trader into the pocket of the banker.

To the bankers, as money-dealers, these are legitimate profits; but such profits are not consistent with the mission and object of the Bank of England, as a national Bank, for the service of the trade and industry of the Nation. But why should the prosperity of the trade and industry of the nation be made dependent on the quantity of gold in the Bank of England, if the means of obtaining any required quantity be always at hand?

Sovereigns and Notes being legal money, and notes being equal to gold, gold will always be obtainable with notes. It, therefore, seems to follow, as a necessary consequence, that no more gold need be kept in the Bank of England than may be required for the *ordinary* demand and

purpose of change; and that, with an ample reserve of notes, the gold can always be obtained.

The *ordinary* demand for gold must by this time be as well known at the Bank of England as the *ordinary* demand for notes, and the ordinary demand for both will be better known when notes cannot be demanded for gold. There can be no reason for making it compulsory on the Bank of England to purchase gold when it is not wanted, and it may most safely be left to the discretion of the Bank Directors when to purchase gold or silver or any other commodity of which they stand in need. It is enough if they comply with the single condition on which their notes are issued,—that of redeeming them in gold on demand. To calculate the amount of gold required for that purpose will be their duty, and that calculation will be much more easy when confined to this one condition.

Extraordinary calls for gold are almost always to send abroad in payment for corn or cotton, tea or silk, or for loans to foreign Governments. To a comparatively small extent, foreign countries draw upon our stock of gold, but never to an extent to cause any real embarrassment to the Bank of England. This object is easily accomplished by the Bank of France, or some other great foreign Bank, buying up Bills of Exchange

upon London, and sending them to London to be cashed, so keeping up its supply of gold by drawing on the stock in hand at the Bank of England.

To counteract this proceeding, by rendering it profitless, the practice of the Bank of England is to raise the rate of discount, thereby inflicting a heavy loss on the whole of our trading community, and out of their loss making a great profit.

If the Bank of England met every such operation on a large scale, by a similar operation on the foreign Banks, or by purchasing gold in the open market in the ordinary way, that would be quite as effectual for stopping the foreign drain of gold, as raising the rate of discount against the trade and interest of this country; and if the Bank of England were a loser by this operation, instead of being a gainer by the other, what is that to the country; and what would be the amount of gain to the Bank in the one case, in comparison with the amount of loss to the country in the other; or, what would be the amount of loss to the Bank in the one case, in comparison with the amount of gain to the country in the other?

But it is by no means clear that there would be any loss to the Bank in the end, though it is quite clear that a very great loss would be saved to the country, if, instead of raising the rate of

discount, the loss in gold were instantly supplied by an increased issue of notes, the effect of which would be to lower the rate of discount.

Can anything be more absurd and inconsistent with our artificial system of money, than to reduce the amount of our money of notes in proportion to every diminution in the amount of our money of gold; so that, when all our gold is withdrawn, all our notes must be withdrawn, and the country must be left without sufficient legal tender for the ordinary transactions of trade, or even for the ordinary purposes of a civilized state of society, and nothing left but to revert to the barbarous condition of barter by exchange?

It is not necessary to show that this state of things is likely to happen.

It is sufficient to show that the principle involves this absurdity, than which nothing can be conceived more absurd. Nor is it an answer to say that, the system of cheques and bills would supply the place of money sufficiently to prevent the stoppage of trade.

That might be so, but it requires no argument to show the necessity for money as a means of transfer in ordinary transactions; or the absurdity of the doctrine,—no gold, no money,—when paper-notes are the legal currency of the country as well as gold, and gold in any required

quantity is at all times to be purchased in the open market with these paper-notes, which are held to be of equal value with the gold thereby represented.

In this point of view is exposed the extreme absurdity of the system which withdraws the notes as the gold is withdrawn, instead of multiplying the notes as the gold is withdrawn, and bringing back the gold to support the credit of the country, on the faith of which the notes are issued, and issued only for the purpose of economising the gold, for the benefit of the country, not for destroying credit, and bringing ruin with distrust.

If any conceivable case could be put in which the notes could not be exchanged for gold, within the limit assumed, then there might be some pretence for the present practice; but, as long as the question is confined within the safe limit,—and that is, as long as the notes issued do not exceed in amount the universally acknowledged credit of the country to redeem them in gold,—there cannot be a shadow of ground for the pretence on which the present practice is founded; and if there were any ground, that would be a conclusive objection to any issue of credit notes, and would be, in effect, to maintain only a metallic currency.

The present practice, therefore, of contracting the issue of notes as the gold is withdrawn, is directly at variance with the principle on which the notes are issued, as also with the object for which they are issued; and keeping a large reserve of gold shut up in the vaults of the Bank is as much at variance with principle as with common sense; for credit, instead of being supported, is weakened with the means for its support, and high rates of discount, with frequently recurring money-panics, shake credit to its foundation, inflicting on the community losses far exceeding all the savings effected by the substitution of paper for gold.

This is not a question of the supply of capital, but of the supply of that medium called *money*, for the transfer and employment of capital. It is quite true that, it is not the purpose of the Bank of England to provide the country with loanable capital; but it is no less true that, one of the most important purposes, and the first duty of the Bank of England is, to provide the country with *cheap* money for the convenient and profitable transfer and distribution of the loanable capital of the country.

This is the great duty which the Bank of England so imperfectly performs. How imperfectly, is the question which the Public in general,

from their very confused and imperfect knowledge of the working of the Act of 1844, are unable to estimate. But Mr. Thomas Tooke, probably, had an insight into the effects of this Act, when he described it as one of '*the most wanton, ill-advised, pedantic, rash pieces of legislation*' which he had ever known, and that, in its consequences, it had proved a most lamentable failure. Nor did he stand alone in his opinion among the eminent authorities in the country on this subject.

There can be no reason why banking should be an exception to the principle of free-trade, or why there should not be perfect freedom of trade in banking. But Banking is one thing, and the issue of bank-notes is another thing.

If bank-notes be made by law equal to the current coin of the realm, the issue of which is a Royal or State prerogative, there must be all the same reasons against the issue of notes by private banks, as against the issue of coin of the realm by private banks. It is simply confusion of mind which leads so many persons to suppose that, the issue of promissory notes is essentially and properly part of the business of a banker.

The business of banking is to collect the unemployed and idle capital, and so to distribute it among the industrious workers as to make it productive of new capital.

But that is not the proper business of the Bank of England. It is no part of the business or duty of the Bank of England to find capital or to distribute it, but to provide means for its convenient transfer; and, in this sense, the money used for such purpose is so much taken out of the capital of the country, as the mere instrument or medium for making the remainder more available for useful purposes; precisely in the same way as the land taken for the purpose of making roads and railways is so much taken out of the food-producing soil, for the more convenient transfer of natural productions and other commodities.

The capital of the Bank of England may, therefore, be compared to the land taken for roads and railways, or to the gold and silver and copper taken for the coinage, being so much capital taken out of the common stock, as a medium or means of transfer and employment for the active capital of the country.

The purpose of the capital of the Bank of England is, therefore, essentially different from that of other Banks, their province being to collect the unemployed capital, and to distribute it, as loanable capital, into the infinite variety of channels where it is wanted for profitable employment.

In this way loanable capital, and capital em-

ployed as currency, or the medium of transfer, though identically the same, are distinct in their functions and operations.

The province of the Banks is to collect, to distribute, and to find employment for, the unemployed capital.

The province of the Bank of England is to provide ample means at all times for the transfer of that capital from hand to hand, for the employment of that capital, and for payment of the wages of labor. The Bank of England does this by purchasing debts, created on the credit of capital, and paying the purchase money in Bank of England Notes, that is discounting bills.

This is found to be the most convenient way of transferring capital from hand to hand, for facilitating the infinite operations of trade and commerce.

Now, it is manifestly of the greatest importance for the success of these operations that, the rate of discount, or the price for the purchase of bills of exchange, should be so regulated as to take only the smallest possible portion of the profits of the trader, otherwise small facility is afforded to trade; and also that the price should be subject to the fewest and slightest possible variations, that the trader may be able to calculate his profits with tolerable accuracy.

And so with Railways. If the rates of charge for the carriage of goods were so high as to take away the trader's profit, no facility would be afforded, and the land taken for the railways would be the loss of so much productive soil to the country.

As regards discounting by the Bank of England, the rate of discount should never be regulated by the credit of the bill discounted, for if the credit do not justify the low rate, neither can it justify the high rate. That which may be a fair speculation for a private bank, may be a most improper one for the Bank of England; the purpose and object of the private Bank being profit, and of the Bank of England facility to trade operations.

It is, therefore, of the utmost importance that those who are engaged in trade should be able to calculate on having their bills discounted at the Bank of England on such terms as will leave them a fair profit for their capital and industry.

It is said that, the Bank of England does not fix the rate of discount. But this is only partially true, for the Bank of England exercises a great influence over the rate of discount, especially in raising it.

The Bank of England, with its large credit capital, must always exercise great influence over

the rate of discount, and generally does keep the rate higher in this country than it is kept in France, although the amount of bullion in the Bank of France is generally lower than in the Bank of England.

The complaint is that, the Bank of England exercises its influence to raise, instead of to lower, the rate of discount; and that the restrictions of the Act alone prevent the Bank from keeping the ordinary rate of interest between 2 and 3 per cent.

That the market-price for money, like every other market-price, must depend on supply and demand, is quite true. But that supposes an open and free market. The market for legal tender-money is the Bank of England, and that is not an open or free market, but a monopoly, as it ought to be.

It is not true that, the public controls the Issues, for, as already shown, the Bank of England rarely issues notes to the amount which, even under its present restrictions, it might issue them. But the objection is that, these restrictions prevent the issues to an amount sufficient to meet the requirements. All that is said about "*over-issues*" is sheer nonsense, for there never has been and never can be an over-issue as long as the notes are payable in gold on demand. Equally absurd is

all that is said about "*over-trading*," which, if it mean anything, can only mean *unsuccessful* trading, and that must very soon correct itself; for, however injurious to the country, from the loss of capital, that would in no way affect the Bank of England, if properly constituted. The truth is that, the terms, "over-issues" and "over-trading," with an appearance of meaning, have really no meaning at all; or, at least, throw no light upon the subject; and this is merely a roundabout way of concealing profound ignorance.

The folly of all such reasoning is in applying general principles to a special case, under special and artificial circumstances, at variance with general principles.

If it be expedient that there should be a monopoly,—and under a Government there are many cases in which it is not only expedient but absolutely essential,—it is only trifling to apply to those cases the reasoning from general principles.

The Bank of England is established for carrying out an artificial system for the convenience of the community.

It is, very properly, not a State establishment, but an establishment employed by the State to carry out a particular design for a special object, of the greatest importance to the State and to the community.

All Statesmen and Political Economists are agreed that, the State should have nothing to do with banking. No Government should undertake what can be as well accomplished by private agency; but least of all should Government interfere with what concerns the commerce of the country. This was the opinion of Adam Smith, and all experience proves that, Government is a bad substitute for a commercial body acting upon sound principles in commercial affairs.

Anything more unfortunate for this country can hardly be imagined, than that the railways of the kingdom should be under the management and control of the Government. Such a false step would be nothing short of a public calamity.

The object of the Bank of England, as a National Bank, is to provide a currency of equal value with gold, by means of paper, thereby saving so much gold taken from the capital of the country, and therefore likened to roads and railways made in the air, to the saving of so much land for growing corn, etc.

For that object the power of issuing paper-notes, as legal tender, to represent gold, is confined to the Bank of England.

In the case of the coin of the realm, the monopoly is vested in the Sovereign or representative of the State, as a Royal or State prerogative.

The paper notes, being legal tender and representing the gold coin of the realm, are the current money of the country; but, being of no intrinsic value, and the value depending wholly on credit, are not necessarily current in any other country, though, in fact, they are to a great extent current in most other countries, and even at a premium in some, because believed to be convertible into gold, on demand. If Bank of England notes were held in the same credit in all other countries as in this country, no gold would be required in this country for money, and gold would be only an article of commerce, like any other commodity.

In this simple view of the case, the absurdity of all that is said about "over-issues" and "over-trading" must be manifest, for, assuming paper-notes and sovereigns to be the same, as virtually they are, it must be a matter of the utmost indifference to the Bank of England what becomes of the notes when they are taken out of the Bank. If converted into Sovereigns, these will return to the Bank in the same form; if in the form of notes, these will be cancelled. All that the Bank has to look to is that, the notes are convertible into sovereigns, and that notes and gold are ready when wanted. In this way, the monopoly will be held by the Bank of England

for the benefit of the country, instead of being held, as it now is, for the benefit of the Proprietors of Bank Stock, at a cost to the country very far exceeding the 12 per cent. dividend now divided among the shareholders.

But it is by no means clear that, the proprietors of Bank Stock are gainers by the high rate of discount, and there is good reason to believe that a more uniform rate, within the *maximum* of 4 per cent. would make a better dividend.

In this view it may be clearly seen that, much of the reasoning from general principles can have no application to the facts of this case, and that the system of the Bank of England, being entirely artificial, its affairs must be conducted on principles consistent therewith; not that this artificial system is inconsistent with general principles, but that general principles are not applicable to the special circumstances of this anomalous case.

Experience has shown that, when gold becomes scarce, the public rush to the Bank of England for Notes, not to convert them into sovereigns, but to hold the notes, knowing that, as the gold diminishes, the notes will diminish in the same proportion, and that, the rate of discount will be raised.

Experience, therefore, confirms the conclusion

that, there would be no rush to the Bank of England for notes when the gold diminishes, if notes were issued in the same proportion, and the rate of discount remained steady; for it is not that the notes are really wanted, but it is the fear that when they are wanted they cannot be obtained, or can be obtained only at an extravagant price. That fear, as experience has shown, is well founded, and prudence dictates the precaution; but if the fear had never existed, the occasion for the precaution would never have arisen, and the notes would have remained in the Bank.

Nor would the question of convertibility have arisen, if it had been known that the Bank of England possessed the means of meeting all demands for gold. If the Public were assured of that fact, this question would be one with which the Public could have no concern, and one which could in no manner affect public credit.

But now, under the existing system, the contraction of the notes as the gold diminishes must, as a necessary consequence, disturb public credit, and actually create the very danger to be guarded against. The danger itself is merely imaginary, but the fear creates the real danger, and the danger is greatly aggravated by the very means taken to avert it.

Such is the working of the Bank Charter Act of 1844.

In 1826, when there was hardly a sovereign in the Bank of England, and when a bundle of old £1 notes was discovered, these were readily accepted, although they had been withdrawn from circulation, and had not been a legal tender for four years before. The Public were as well satisfied with these notes as if they had been sovereigns.

It is a fact universally admitted that, for internal circulation, as a means of settling accounts among ourselves, Bank of England Notes are accepted everywhere and always in preference to sovereigns, as being equally safe and more convenient; and, showing the influence of credit in this country, a cheque, if on a good and well-known Bank, though not a legal tender, is generally preferred to either.

In fact, the British Public, for their own internal monetary transactions, neither require nor desire sovereigns, and all they require is, to know that they can have sovereigns when they want them, in exchange for notes.

It is a fundamental error, out of which many errors have arisen, that the export of gold is a loss of so much capital to the country. It might be said with as much truth that, the export of

our iron or cotton goods is a loss of so much capital to the country.

It is not a loss of capital that is occasioned by the export of gold, but it is a loss of currency, by the consequent loss of bank-notes for our internal transactions, and a diminished supply of gold for our foreign payments.

In this way the machinery of the Issue Department inevitably works. Hence a drain of gold is followed by a high rate of discount, not from the loss of capital, nor from the loss of gold, but from the loss of notes.

Gold is never sent out of the country, but for the benefit of the country, except when sent to support foreign war, or to make improvident loans, or other unsuccessful investments abroad. Most frequently the gold is sent to get the raw materials for the employment of our working people, or cheap food for all classes of our people. Experience has so clearly established these to be facts that, it is wonderful they should be now in question.

To go back no further than the year 1862, the experience of that year alone ought to be conclusive on this question.

In that year the demands upon our capital, partly from a bad harvest, and partly from the cotton-dearth, were greater than had been known

in any year within living memory. And yet, in that year the Bank-rate of discount stood at the lowest point which has ever been known, namely, 2 per cent., and the highest rate in that year was 3 per cent.

Or, again, to show that high rates and low prices are not dependent on the export of the precious metals, take the recent case of the monetary crisis in India, at the latter end of the year 1863, when prices there were reduced 27 per cent., and the imports of the precious metals into India in 1862–63, were £20,523,459. It is well known that the wealth of India is rapidly increasing, and that it was no *loss of capital* which occasioned that extraordinary fall of prices; still less a loss of capital caused by export of the precious metals, which, in fact, were then, and had been for many years before pouring into India in prodigious quantities, the total amount imported in the seven previous years being £96,192,078.

These examples will be sufficient to show that, the theory must be wrong which attributes the charge for money on loan to the amount of capital in the country, though, to show this, the fact might be sufficient that, in England, the wealthiest and most enlightened country in the world, the usual rate of charge for money on loan is the highest in the world.

Neither are our high rates of discount attributable, as so often alleged, to a diminution of the *loanable* capital of the country.

Loanable capital, in the sense here used, means the spare or unemployed capital of the country.

If the rate of discount be regulated by the amount of loanable capital only, the rate ought to vary inversely with the amount.

But it is quite otherwise. The rate and the amount both increase together. This may be easily seen by taking the sum total of the deposits in the Bank of England and in the Joint-Stock Banks in each year of the last few years, and comparing these accounts with the Bank-rate of discount in the same years.

The returns of the Bank of England and of the London Joint-Stock Banks may be taken as a fair indication of the general increase or decrease of banking-deposits throughout the country.

Thus in June, 1856, the deposits in the Bank of England amounted to £15,514,000, and in the London Joint-Stock Banks to £34,491,000, making the total £50,005,000. The Bank-rate of discount in the same month was $4\frac{1}{2}$ per cent.

In June, 1864, the deposits in the Bank of England were £23,013,000, and in the London Joint-Stock Banks, £74,833,000, making the total £97,846,000. The Bank-rate of discount in the same month was, 6 per cent.

The total amount of deposits in each intervening year is on the ascending scale, from 50 millions and upwards, to 60 millions and upwards, 70 millions and upwards, 80 millions and upwards, and in December, 1863, 87 millions and upwards.

In the same years the Bank-rate of discount is also on the ascending scale, with continual variations, but rising from 4 to 5, 6, 7, 8, 9, and 10 per cent., and between the 8th October, and 9th November, 1857, rising from 6 to 7, 8, 9, and 10 per cent., and the average of the whole of the year 1864, exceeding 7 per cent.

These facts are sufficient to show that the Bank-rate of discount is not regulated by the amount of the loanable capital, these deposits, large as is the total amount, forming but a small portion of the loanable capital of the country, which is differently estimated, but said to be not less than 400 millions. But, whatever may be the actual amount, it is clear that, between the years 1855 and 1865, the amount of loanable capital has doubled, and that the rate of discount, instead of falling, has risen. The only year in which there was a decrease in the amount of deposits was in 1858, and throughout that year the Bank-rate of discount, instead of rising, was falling, the diminution in deposits being upwards of 5 millions,

and the rate of discount, in January, being 6 per cent., and in December 2½ per cent.

Thus, it will be seen, the variations of the Bank-rate of discount do not correspond in any way with the variations in the amount of loanable capital. In the great monetary crisis of 1857, the loanable capital in the possession of the Banks was 20 per cent. larger than in the previous year; and 3½ per cent. larger than in the year following, when the rate of discount was lowered to 3 and 2½ per cent.;—and in the year, 1864, when the rate of discount was 7, 8, and 9 per cent., the amount of loanable capital was 25 per cent. larger than in 1862, when the rate of discount was only 2½ and 2 per cent.* The theory of "loss of capital," therefore, is contradicted at all points by experience and facts, and it is clear that there must be some other reason than this for the high rates of discount imposed by the Bank of England when gold is being exported. The real explanation of these high rates is, not that there is less capital, but that there is less means of transferring it; that money is diminished, in proportion to the increased want, not capital.

It is quite true, as the advocates of the Act of 1844 say, that there was not any want of money during the crisis of 1847. It is perfectly true

* "Economy of Capital," page 227.

that, there was plenty of money in the country, but it is not true that there was plenty in circulation. A great part was in the coffers of the bankers and the money-lenders,—held by the former to secure their credit as bankers, and by the latter to gather a rich harvest, which they succeeded in gathering, by exacting almost any premium they chose to ask for their accommodation loans to save the necessitous merchant from bankruptcy.

Now, though the Bank of England cannot supply capital, yet it can or ought to supply money; and, as already shown, the money-panics are caused simply by the want of money, and not of capital.

The control held by the Bank of England over the issue of notes, as already shown, must always secure to the Bank of England a commanding power over the rate of discount, if not always sufficient, at least generally sufficient, to keep it from exceeding 4 per cent., and to prevent the present grotesque gyrations between 2 and 10 per cent., this being absolutely a national calamity, and, as it might be properly called, an Act of Parliament panic.

When the Bank of England raises the rate of discount to 8 per cent., the markets fall and the serious losses begin.

With 9 per cent. the losses become heavy; distrust spreads rapidly, and failures and suspensions multiply.

At 10 per cent. comes the panic and the crash, and another turn of the screw by the Bank to 11 per cent., endangers the foundation of the strongest houses in the City of London, and spreads universal dismay at home and abroad.

This is a power which the Bank of England ought not to exercise, though it ought to be strong enough to prevent the exercise of any such power. That nothing is more easy than to invest the Bank of England with the controlling power, within moderate and wholesome limits, has been already shown. All this may be accomplished by the most simple means, consistently with perfect freedom of trade and the known rules of Political Economy. But, for this purpose, the Bank of England must cease to be a Joint-Stock Bank of discount for profit, and must be an establishment for State purposes, though in no way under the control or direction of the State, but a National Bank for the benefit of the nation at large.

In this respect, the practice of the Bank of France is much more commendable than that of the Bank of England.

The Bank of France when pressed by a drain

of its gold, does not seek to check the drain so much by raising its rate of discount, as by other means, quite as efficient for obtaining gold as those adopted by the Bank of England, but much less severe upon the trade and industry of the country. The difference between the two methods is, that the Bank of France obtains the gold by buying bills on London, Vienna, and Hamburg, etc., and getting them discounted there at high rates and paid in gold, the Bank of France thereby bearing the loss instead of throwing it on the community; whilst the Bank of England enriches itself by the high rates of discount, and throws the loss on the trade and industry of the country. The Bank of England makes a profit out of the distress. The Bank of France incurs a loss to relieve the distress. In both cases, under wiser management, the loss might generally be spared, and always greatly reduced. But the practice of the Bank of France is the most wise and just of the two; the doctrine being, that it is a first duty to provide gold or notes to meet the requirements of the country; a doctrine which the Bank of England repudiates, or, at least, does not act upon, for it adopts no other means of obtaining gold than by deterring applicants from coming for notes, because these may be exchanged for gold. Such is the mean and shifty contrivance

instigated by the Bank Charter Act, to the disgrace of the Legislature and the manifest injury of the country.

The average stock of bullion held by the Bank of England is about £15,000,000, and for upwards of twenty years previously to 1844, the average was £8,000,000, or little more than one half, and yet there was never any difficulty about gold.

The Bank of France, with a note-circulation of £31,000,000, or one half greater than the average note-circulation of the Bank of England, sometimes finds its stock of bullion reduced to 6½ millions, with its rate of discount 7 per cent., and without a panic or crisis of any kind.*

In this state of affairs with the Bank of England, the Bank rate of discount would be, at the least, 20 per cent., or, more probably, the Bank would stop payment, and, between these two evils, the last would be the least.

Many occasions of monetary pressure which would hardly have been felt as embarrassments under the Act of 1819, have been attended with panic and overwhelming disasters under the Act of 1844. Nor could it have been otherwise, since the Act required that the Bank of England should hold an amount of gold corresponding

* "Economy of Capital," page 252. Note.

with every note issued beyond the fixed sum of £14,000,000 (now £14,650,000).

Now, as the ordinary amount of notes in circulation is £21,000,000, there must be, at the least, £6,500,000 of gold in the Issue Department to allow those £21,000,000 of notes to be in circulation; and then the Bank has not the power to issue another note or to draw out a single sovereign. And, taking into account the requirements of the Branch Banks and other matters, this sum may be stated in round numbers at £7,000,000.*

In this condition, as Bills which have been discounted fall due, the Bank may discount others to a like amount, but not beyond, and this is the utmost that the Bank can do; but, in that case, if a depositor came to the Bank for even a £5-note, he could not get it, for the Issue Department, with the £7,000,000 of bullion, is shut up, and the Bank has no legal power to issue even a single note. The issue of a single additional note or sovereign under these circumstances involves the loss of the Bank Charter.

Such a dilemma, it is obvious, must be wholly artificial, whilst £7,000,000 of bullion remain unused in the Bank of England, and as this state of affairs must curtail, if not stop, discounts by

* "Economy of Capital," p. 254.

the other Banks and discount houses, the difficulties so created must be greatly aggravated by withholding help at the time when it is most wanted.

The objection is not to shutting up £7,000,000 of bullion in the Bank vault, as some political writers seem to think,* but to such an unprofitable appropriation of so much capital. If the credit of the Bank note were so low as to stand in need of this additional security, a more profitable appropriation than this cannot be imagined. But if, instead of adding to, it diminish, the security, then it is impossible to imagine a more unprofitable appropriation of £7,000,000 of capital, than shutting it up in the Bank vault.

The writer in the Westminster Review, in his observations on Mr. Patterson's book on "The Economy of Capital," says:—"To declaim against the hardship that, when the Bank has issued 21 millions, it has in its vaults nearly seven millions of gold which it cannot use, is about as wise as to regret that you cannot both eat your cake and have it."

This homely illustration altogether fails, for in this case the cake is not eaten, but locked up.

Many think it is a hardship that so rich a cake should be locked up and nobody be the

* "Westminster Review," April, 1865, p. 585.

better for it. The writer in the Westminster Review thinks it better that it should be locked up, but he has given no reason for that opinion, and that seems to be the question.

To keep a good and wholesome cake locked up when you are starving, seems to some an absurd conclusion; but that is the conclusion to which the principle of the Bank Act inevitably leads, and from that conclusion the Bank of England has been twice saved only by the suspension of the Act.

The first of those occasions was on the 23rd October, 1847, when the bullion in the Bank of England was £8,313,000, and the Bank rate of discount 8 per cent.

The second of those occasions was on the 11th November, 1857, when the bullion in the Bank of England was £7,170,000, and the Bank rate of discount was 10 per cent.

On those two occasions the Bank of England was saved from stopping payment only by the Government taking upon itself the responsibility of suspending the operation of the Bank Act, and the chance of getting an Act of Indemnity.

The three great occasions previously to 1844, were on the 31st December, 1825, when the bullion in the Bank of England was £1,261,000, and the Bank rate of discount was 5 per cent.;

the 7th February, 1837, when the bullion was £3,831,000, and the rate of discount was 5 per cent.; and the 3rd September, 1839, when the bullion was £2,406,000, and the rate of discount was 6 per cent.

On these three occasions of panic, distress, and ruin, the Bank of England, sorely pressed, in imminent peril, unaided, but unshackled, struggled through the difficulties. It was unable to avert the storm, but was able to ride through it. With real capital the storm on all those occasions would have been easily averted. But, still, the contrast is greatly in favor of the Act of 1819, with all its defects, and against the Act of 1844, with all its pedantic absurdities, in addition to all its imbecile deficiencies.

The stock of bullion and specie kept by the Bank of England under the Act of 1819, on the average did not exceed £8,000,000, but the convertibility of its notes, though unrestricted in the issues, was never questioned. The unrestricted issues saved the Bank, though the want of real capital left the Bank unequal to the occasion on these emergencies. But the Bank of England was then on a firmer foundation, and, as the facts prove, better able than it has ever been since to help the trade and industry of the country. The average rate of discount was then

lower and more steady than it has been since, and the monetary crises were then less frequent and less disastrous than they have been since; but the want of real capital left the Bank exposed to the operations in gold, and these sometimes threatened, or were supposed to threaten, though it was never brought into question, the convertibility of the Bank-note, thus creating distrust, which struck at the foundation of credit.

But £7,000,000 more in gold were at the command of the Bank under the Act of 1819, than under the Act of 1844, and though gold was hoarded more than notes previously to 1844, yet, subsequently, notes have been hoarded more than gold, thereby proving that, of the two evils, the last is the worst; for the want of notes is an actual and indispensable want; whereas, of gold, it is sufficient if it be known that the means be possessed of obtaining it when wanted.

Thus, it is evident, that the want of Bank-notes, and the nullification of £7,000,000 in gold have been the sole causes of those monetary convulsions which have so frequently disturbed the trade operations in this country, and until these causes be removed it is impossible that the country can escape from a periodical recurrence of such disasters.

Nor are these periodical convulsions the only

consequences, for one of the permanent effects of the present system is to enhance the rate of discount, or the value of loanable money, throughout the country.

This must be an inevitable and permanent effect of the nullification of £7,000,000 of bullion in the Bank, for when the actual amount of bullion in the Bank is £14,000,000, the Bank can operate only on £7,000,000, or one half, the other half being as much nullified as if non-existent.

If the same system were carried out in other parts of our domestic policy, the monstrous absurdity would be more apparent; but this complex and crooked contrivance of the bankers and capitalists, confined to the currency of the country, is very imperfectly understood.

The subject is in its nature somewhat intricate, and but a very small proportion of the Public has the time and energy for the study of the question necessary for a clear understanding of it. If the Public did understand this question they would see that, as a currency system, it is not only erroneous, but that it is a grievous wrong inflicted on the whole community, inflicted by an Act of Parliament, framed by one of the greatest capitalists in the country,—then at the head of one of the greatest of the private banking houses in

the City of London,—justly looked up to as one of the most experienced and influential of his class, and carrying with him nearly the whole of that large and necessarily most influential class on such a subject, and carrying with him also the head of the Government of that day, who, in almost every great measure of State policy in his long political career, himself admitted that he had proceeded in error, who in every great measure of State policy was rarely in the right until he admitted himself to be in the wrong, who, through the greatest part of his long political career was the fiercest opponent of Free Trade, and who, just at the close of his career, when he abandoned his principles and party of Protectionists and publicly in his place in Parliament declared himself the advocate of Free Trade,—yet, at that very time, set up "Protection" in its worst form, in the Bank Charter Act of 1844. With the zeal of a convert and the blindness of a pervert he rushed out of one error and plunged into another and a worse; the very frame of his conversion added to his power as a Protectionist; he did not know what he was doing, and, probably, those who led him knew no more, but least of all did the Public know that he was rivetting the chain of "Protection" upon the trade of this country when he succeeded in pass-

ing his celebrated Bank Charter Act of 1844, which has done more mischief to the trade and industry of this country than any single Act of Parliament that was ever passed, by virtually declaring that the country, when it does not want paper-money, shall have a great supply of it; and that the country, when it does require paper-money, shall have none of it; that the country, when it has enough of specie, shall double the currency by an equal amount of notes; and that when there is no specie, there shall be no notes.

Such is the monstrous and grotesque theory which regulates the currency of this great and enlightened country!

It is difficult to estimate very accurately the total amount of the currency of the United Kingdom. But it will be sufficiently near to reckon the gold and silver coinage at 120 millions, and the Bank notes at 40 millions, making the total currency 160 millions. In addition to this is the uncoined bullion kept in the vaults of the Bank of England, seldom less than 10 millions.

Of this 160 millions of currency, about 120 millions is in constant use in carrying on the ordinary operations of daily life, in transactions between tradesmen and their customers, in the purchase of the necessaries and luxuries of life, and in the payment of the wages of labor.

Being thus constantly employed and passing from hand to hand, it is not available for other purposes. It is only that portion of our currency which is deposited at the banks that is available for the discount operations by which trade is carried on.

What that portion really is can never be ascertained, but it is manifest that it cannot exceed 40 millions, and that after the usual provisions have been made for the requirements of the depositors, it can hardly be so much as 30 millions.

It is this portion of our currency alone which is available to meet the requirements of trade, subject to all the variations to which these are liable from the continual fluctuations in the amount of the monetary supply and the infinite number of other causes.

Now, it must be obvious to all who are acquainted with trade in this country, that 30 millions is a very inadequate sum for meeting all these requirements, liable to be affected by so many disturbing causes, and that it is impossible, with such means, to prevent those disturbances, and to keep discounts steady at low rates. But when the fund applicable, and solely applicable, for this purpose is reduced 4 or 5 millions, by curtailing the issue of notes, it will be seen that the pressure upon trade must be very great and

unavoidable, and that the consequence of high discounts and falling prices must be ruinous to those whose capital does not enable them to stand against such losses. If the four or five millions were deducted from the hundred and sixty millions, the effect of one thirty-second of the whole would be small, but when it comes to one-seventh of the whole the effect is a convulsion.

Thus, the occasional variations in the rate of discount, though quite insignificant compared with the amount of currency, yet, compared with the amount of loanable money, are absolutely ruinous; for an alteration of 5 per cent. in the quantity of the currency, alters the value of the loanable capital to five or six times that extent. When by diminished issues, or increased requirements, the loanable money is reduced four or five millions below the ordinary amount, the value of money is raised 20 to 25 per cent.; although the currency itself be reduced only a thirtieth or fortieth part, or not at all.

If variations so small in the quantity of loanable money produce changes so enormous in prices, it is obvious that, if the Bank of England possessed the power of increasing the issue of notes on credit to the amount of £10,000,000, in addition to its own independent capital of

£14,553,000, this would be a power ample for keeping the ordinary rate of discount between 2 and 3 per cent., and the *maximum* at 4 per cent.; or for bringing down to these rates the higher rates of other Banks, under extraordinary circumstances. With such a preponderating power in the Bank of England, supposing it to be the only Bank of Issue, it is not easy to imagine the extraordinary circumstances which could long maintain a higher rate than the ordinary Bank of England rate of discount; for, the greater facility thus afforded by the Bank of England for the transfer of capital, by increasing the issue of notes, and the greater control over the market of gold for counteracting its export, would, under ordinary circumstances, effectually prevent those sudden changes which defeat all calculations and destroy credit.

When the diminution by only the thirtieth part of the ordinary amount of our currency produces such serious derangements of our monetary system, and such extensive commercial embarrassments, it is a reasonable conclusion that all these consequences might be prevented by keeping the supply of currency at all times equal to the demand, or, increasing the issue of notes, and, if necessary, keeping them in circulation by checking the efflux of gold.

With a power over the issues of notes, and over the market of gold, the Bank of England would be able to prevent those derangements which cause such general distrust and loss of credit; or, if, on extraordinary occasions, the power were insufficient to prevent temporary derangements, those occasions would be rare; and as the operations of the Bank of England would quickly restore the equilibrium of value between this country and foreign countries, public confidence would remain unshaken and would prevent that general distrust and loss of credit which produces panic.

Experience has proved that the cause of panic is simply in the fact that, from one cause or another, the currency has become reduced to an amount insufficient for the requirements of the community, and that as soon as the amount has been made sufficient for the requirements, the crisis is at an end.

The question, then, is simply this; whether the amount of currency shall be increased to meet the requirements; or, whether the requirements shall be reduced to meet the amount of currency.

Under the present system, the requirements are brought down to the currency, instead of the currency being brought up to the requirements;

the one case being attended with increase of profits to trade and of Capital to the country,—and the other with ruinous losses to trade, and, consequently, diminished capital.

It is the iron-bound rigidity of the Bank Act, and the want of elasticity in our currency system which is the great evil. It is this which prevents our currency from accommodating itself to those occasional fluctuations in the demand, which must be ever liable to occur, and which it is impossible wholly to prevent.

Nor is this evil confined to such occasional fluctuations. With an increase of trade and population such as has occurred in this country within the last twenty years, it is manifestly impossible that the same amount of Bank-notes which answered the requirements in 1844, should be sufficient for the demands in 1865. If in 1844 £21,000,000 of Bank-notes were sufficient to keep the ordinary rate of discount between 3 and 4 per cent., and if in 1865 the requirements demand £25,000,000 of Bank-notes, it is evident that 10 and 12 per cent. would become the ordinary rate of discount, with variations between 15 and 20 per cent. in times of pressure.

That would still be held to be, as it is now, only a question of supply and demand, and that

question would be answered as it is now. But those Political Economists who would so answer, do not distinguish between a natural and artificial law. The natural law cannot be controlled, but the artificial can be.

The Bank-note being entirely an artificial contrivance to save gold, must be regulated by an artificial law, but this artificial law should be so framed as to work in as strict conformity as possible with the natural law of supply and demand. No philosophy, no science, and but very little common sense is required to show the necessity for this. And yet this modicum of common sense is wanting for the regulation of our artificial currency system!

Philosophy and science are brought forward in support of a natural law which is undisputed, and this is applied to our currency system which is wholly artificial, and not regulated in conformity with the natural law, but in conformity with an arbitrary rule, which is directly opposed to the natural law.

Thus, by artificial contrivance, money is made out of paper, and the paper is made equal to gold in this country, but cannot be made equal to gold out of this country.

If the paper were equal to gold in every country, then the paper would be subject to the

same natural law as the gold, but being current only in the country where it is issued, paper-money is of no value for foreign commerce without the gold; therefore the natural law of supply and demand is as applicable to the paper as to the gold, which is represented by the paper.

But the artificial law acts inversely to the natural law, for, as the gold diminishes in quantity, the paper which represents the gold diminishes in like proportion, and, therefore, the natural law of supply and demand is reversed, the supply continually diminishing as the demand increases, and as the paper is supplied by credit, and the gold by loanable capital, which is independent of credit, to make the supply of paper-money dependent on loanable capital, is not only to restrict the credit of the country to that amount, but also to subject such restricted credit to all the variations in quantity and value of the loanable capital, instead of extending credit on the broader basis of the whole capital of the country.

By this radical defect in our system, the issue of our bank-notes is regulated not by the natural law of supply and demand, but by the artificial law of credit; that credit resting on the comparatively narrow basis of loanable capital, and, therefore, liable to be affected by all its varia-

tions, instead of resting on the broad basis of the whole capital of the country, by which the bank-notes are, in fact, guaranteed.

The effect of this system, irreconcilable with any recognized principle, is to withdraw the paper, representing the gold, as the gold itself is withdrawn, thereby withholding the paper at the very time when it is most wanted, and shaking, to the very foundation, the credit on which the whole system of paper-issues rests, and thereby making such issues a delusion and a snare to all those who have recognized and relied on these as equal to gold. This is, in its effects, worse than if the paper were issued as notes not convertible into gold. Times and circumstances might again arrive when that promise could not be performed, but still confidence in the paper as the representative of gold, and credit, might remain unshaken in this country, and the consequences of that state of things would be trifling in comparison with the disastrous consequences when credit is destroyed, and neither paper nor gold can be obtained. This is no speculative opinion, but experience from facts.

A famine, a long protracted war, or the foreign exchanges for any lengthened time against us, would prove the inefficiency and insecurity of our monetary system under the Act of 1844.

The monopoly of the Bank of England enables the Bank by its action to regulate the value of the currency, and the rise and fall of prices. All the other Banks are unequal to compete with the Bank of England in the exercise of this power.

This monopoly should be made still more complete in the Bank of England, but the whole benefit should be secured to the community.

If the privilege of issues be vested exclusively, as it ought to be, in the Bank of England, that ought to be on the principle of making the issues at all times equal to the requirements, without regard to any other consideration, and at a rate of discount not exceeding 4 per cent. The issue of notes by the Bank of England ought to be regulated on no other principle than making the supply equal, at all times and under all circumstances, to the demand, at 4 per cent. as the *maximum* rate of interest.

If it be necessary for the Bank of England to check the demand for the purpose of stopping the export of gold, the Bank must effect that object by its own capital, and at its own cost; not by its credit capital, at the cost of the credit of the country.

This is a clear and distinct principle, and on this principle only can the monopoly of paper issues in the Bank of England be justified.

So regulated, the monopoly in the Bank of England would be attended with incalculable services to the trade and industry of the country, and with perfect safety to the Bank.

The average rate of discount would then be between 2 and 3 per cent., and the rate would seldom reach 4 per cent. If it ever exceeded 4 per cent., that could be only under extraordinary circumstances, and rare occasions, and the operations of the Bank of England must soon restore the ordinary rate.

The issue of notes being then entirely under the control of the Bank of England, and these notes being the currency with which the other banks and discount-houses carry on their business, they must be so far dependent on the Bank of England as to follow in its course.

The chief, if not the only reason to be assigned by the Bank of England for contracting the issue of notes is, to restrict the export of gold, although that has long ceased to be interfered with by law, as an antiquated and admitted absurdity. Gold is exported only when it is more profitable to export gold than other goods. Therefore, to prevent the export of gold is to prevent profitable trading, and is directly at variance with freedom of trade. And yet, on this antiquated error of interfering to prevent the export of gold the Bank of England is still acting.

It seems that, for some time past, the Bank of England has treated the importers of cotton as enemies; for, in the *Bankers' Magazine*, of February, 1863, is the following notice:—"In November last, the Bank of England refused discounts to purchasers of cotton, not because their Bills were doubtful, but because of the dread of a drain of gold."

If such were the act and motive of the Bank of England, that was a check on the import of cotton, to prevent the revival of our cotton trade, and the employment of our labouring population, to save, at the most, a trifling loss to the Bank of England.

To invest the Bank of England with this monopoly of power over the currency of the country, and to allow the Bank to exercise such power for its own benefit, to the injury of the trade and industry of the country, is as inconsistent with "*free*" trade, as with common justice, and common sense.

Thus, while recent legislation has been striking off the fetters which our ancestors, in their ignorance, had fastened upon Trade, the Bank Act of 1844 has imposed new fetters on the means of carrying on trade, and in such a way as in a great measure to counteract the benefits of freedom and the liberty of expansion.

To this fatal legislation is to be attributed all the subsequent disasters to our country from our defective Monetary System, and the amount of loss inflicted upon the country by the Bank Charter Act of 1844, is so great, and through channels so numerous, as to be utterly beyond all calculation.

It has been said, by a writer on this question entitled to the most respectful attention,* that the practical effect of the Act of 1844, upon the circulation of the country and the bullion, is very clearly elucidated in the following replies of Mr. Weguelin (then Governor of the Bank of England), to questions put to him, as a witness, by Mr. Gladstone, in the Select Committee of the House of Commons on the Bank Question, in 1857.

(300.) "With all the fears of the public when a drain has existed, you consider that the anxiety and true prudence of the Bank is now, and has been, for a considerable time past, directed, not to the provision of bullion as a security for the convertibility of the notes, but to the provision of cash in gold and notes together, in order to maintain your banking reserve?"

—"The banking reserve consists of the notes not employed in active circulation, as the active

* "The Currency Question, and the Bank Charter Committees of 1857 and 1858, Reviewed by an M.P.," page 35.

circulation is issued partly upon securities, that is, to the extent of £14,475,000, and the rest upon bullion; the banking reserve is, in point of fact, a reserve of bullion, thus nothing affects the banking reserve but a demand for bullion, either for the internal wants of the country, or for the purposes of export. The rule, therefore, which the Bank has followed in managing its banking affairs is to observe the banking reserve as affected by a demand for bullion."

(301.) "But when you have had any occasion to desire an increase in the stock of bullion, am I to understand that that has not been because more bullion was wanted to secure the convertibility of the Note, but because more bullion was the basis of a larger issue of notes, and an increased issue of notes was desirable with reference to the state of your reserve?"

—"That is so."

(302.) "Having in view the answers you gave with respect to the state of your banking reserve as the great object of care and attention under the present law, do you think that the provisions of the present law are the best that could be adopted, in order to enable you to maintain the reserve in a satisfactory state?"

—"I think that the provisions of the present law, as to issue, little affect the state of our bank-

ing reserve, the provisions being that, there shall be only a fixed amount issued upon securities. The fluctuations of the bullion, which is the index measure of the fluctuations of the wants of the commerce of the country, must be the measure of the fluctuations of the reserve; and that must be the case, I think, under any system of law with regard to the circulation you may enact."

(303.) "Do not the provisions of the law with respect to issue act powerfully upon your measures with regard to the maintenance of your reserve? And is not your position as to the maintenance of your reserve somewhat different now from what it was before the Act of 1844?"

—"Before the Act of 1844, it was not necessary to keep a reserve, other than the bullion which was in your coffers,—that was your reserve. When you were called upon for any sudden demand you issued Notes, and, of course, that varied the proportion of your bullion to your notes."

(304.) "Therefore, your position has been materially changed by the Act of 1844, with respect to your power over your own reserve at any given moment?"

—"Yes, with reference to our power over the bullion — not over the reserve, but over the bullion."

The fluctuations of the bullion must be the measure of the fluctuations of the reserve, but the bullion cannot be the index measure of the fluctuations of the wants of the commerce of the country, when the bullion is sent out of the country not as money, but as a commodity, or merchandise. Therefore, this part of the answer is without any meaning. But that the bullion must vary as the reserve, and that the Bank Directors cannot increase or diminish the reserve without a corresponding augmentation or diminution of bullion is true. This is the effect of the Act of 1844, and is *theoretically* its great merit but *practically* its great error; for this assumes that, the unrepresented note circulation is fixed at the highest amount at which it can be safely fixed; and that it is possible to fix that amount;—two important points, which are denied. If the foregoing assumption were true, then the Act of 1844 would be perfect both in theory and in practice; but, in practice, both of these assumed points have been proved to be untrue. It has been proved by experience that, the unrepresented note circulation is not fixed at the highest amount at which it can be safely fixed, and that the amount at which it can be safely fixed can be determined only by experience; also that, the safe limit can be determined only by discretion, guided

by experience, according to the ever varying circumstances, subject to regulation and extension from time to time; and that, in the meantime, the *maximum*, or extreme limit, can alone be safely fixed, beyond which even the discretion of Bank Directors is not to be trusted.

At present the principle of the Act and the practice under the Act are at variance. The principle of the Act is that, every holder of a Bank of England Note shall receive in exchange for it, on demand, 5 sovereigns. But the Act authorises the issues of Bank of England Notes to the amount of £14,000,000, and makes no provision for their payment in gold. The provision for the payment in gold is made only for the notes issued in excess of that amount. It is assumed and safely assumed, that none of the £14,000,000 of Notes, unrepresented by gold, will ever be returned to the Bank to be exchanged for gold, and, therefore, that it is unnecessary to provide gold for their payment. Therefore, if notes to the amount of £21,000,000 be issued, it is assumed that £7,000,000 of bullion in the Bank will be a sufficient provision.

There is no fallacy in this reasoning. But the only gain to the country from this mixed currency of paper and specie is in the saving of the interest on £14,000,000 of specie. This is a gain

easily calculated. But what is the gain of the further issue of £7,000,000 of notes, if the same amount of gold be always kept shut up in the Bank? It is obvious that there can be no gain if the £7,000,000 of gold remain always in the Bank. It is said that, the value consists in the fact that the gold is there. But this is merely a fanciful idea; for, if it be always there, that is the best evidence that it has not been wanted; and, if it had been wanted, it will have been taken away, and will be no longer there. But, if it have been taken away, the same number of notes will also have been taken away, and, if twice 7 be equal to 14, the currency medium, or legal tender money of the country, will have been diminished £14,000,000, the whole amount of the unrepresented note circulation directly authorised by the Act.

Now, if the whole of the £7,000,000 of gold be taken out of the Bank in exchange for notes and sent abroad, there can be no gain in that to the Bank or the country. The same, of course, applies to part as to the whole.

But when the gold is sent abroad and notes to the same amount are cancelled, what is to become of those traders who have imported largely and have not sufficient time for realising their produce to enable them to meet their bills?

To the traders in this predicament,—and most traders are in this predicament,—ruinous loss, if not absolute ruin, is the inevitable consequence.

But suppose only a million or two of gold gone, the Bank, to stop the remainder from going, must raise the discount to such a rate as will take away all profit from the export of gold. This is, in effect, lowering the price of bills, or enhancing the value of the bank notes, to meet the enhanced value of gold. The exchange of the bank notes for gold is stopped, for that time, by taking away the profit on such exchange; but this gives the profit on the enhanced value of the bank notes to the Bank, and takes away from the traders the profits on their imports, besides restricting them in their future trade transactions, however profitable those might have been to themselves and the country.

This is the meaning of the correction of an adverse exchange, and these are the desperate means prescribed by the Bank Act—cutting off to cure.

Now, all this is quite manifest, and it is equally manifest that, here is no gain to the country, but, on the contrary, a great loss to the country in the unsuccessful transactions of the traders, and in restricting their future operations in trade, if not absolutely annihilating them by bankruptcy.

These losses, it is easy to see, may be so multiplied, in the ramification of consequences, as to be incalculable.

The profit of the Bank from these disasters, if any in the end, which is doubtful, can be only for the benefit of the owners of Bank Stock, but the loss of 10 or 12 per cent. falling on the whole trade of this great commercial country is beyond calculation, involving the ruin of many, and most injuriously affecting the whole community dependent on trade and industry.

If it be said ;—'such would be the effect with a currency wholly metallic,'—that is not true.

The issue of £14,000,000 of notes unrepresented by gold, has saved that amount of gold, and has enabled the Bank of England to retain the £7,000,000 with the profit on the gold saved ; but when the market price of gold rises, the Bank can no longer retain this £7,000,000, without enhancing the value of the bank notes, at a cost to the community much greater in amount than any profit to the Bank or the country on the gold saved. This supposed profit is, simply, the delusion of the Bank Act, for the actual loss very far exceeds any profit, and, clearly, it would be much better for the country to have no bank notes, than to have them at such a cost. If this be the risk and loss on the issue of £7,000,000

of notes against the like amount of bullion in the Bank, how must the risk and loss be multiplied when the £19,000,000, or £20,000,000 of deposits in the Banking Department are brought into operation against the gold in the Issue Department by the same process of exchange of notes for gold? The trick of the £14,000,000 of notes, slipped in on credit, but liable to be redeemed in gold, passes unperceived in the case of only £7,000,000 of notes issued against the like amount of gold deposited in the Bank; but when an additional issue of notes is made on the faith of these deposits, which may be at any moment withdrawn, and these notes are exchanged for gold, then the original and harmless trick, and the vicious deception founded thereon, are very plainly seen, and the delusion is very forcibly exposed in universal panic and almost universal bankruptcy.

Where is the profit to the country on the original saving *then?*

Certainly not in the community, and certainly not in the Bank. But if it were in the Bank, what compensation is that to the country?

Who can calculate the losses, and who can guard against them?

Who can foresee all the evil consequences of this complicated state of things, or trace the evil

through all its intricate courses with a view to precautionary measures against it?

That is impossible.

To find a remedy is also impossible, because the principle and the practice can never be made to agree. It is as impossible as to bring all nations to agree to one measure of quantity, or to one denomination of money, or to one language. All these attempts are impossible, and, therefore, all are equally absurd. This might almost be assumed from the innumerable attempts and failures.

On this Bank Question, how few, among all the most experienced and able men in the country, are agreed on any one point! If they agree in anything, it is in not making any change, for fear of making matters worse. They all, or almost all, agree that there is something wrong, but on the question,—how to mend it,—there is no agreement. They do not see their way, and, wisely, they do nothing, for, in the dark, it is sometimes the wisest way to stand still.

Here is an M.P., one of the present members for Westmeath, a gentleman well known and highly esteemed by all who know him,—distinguished as a Scholar and as a Political Economist, and who is known to have devoted much attention to this Bank Question in particular.

He has written the most able pamphlet that, perhaps, has been written in favor of the existing Bank Act, and he entitles his last chapter,—

"REMEDIES SUGGESTED."

But his remedies are no remedies at all, because he maintains the principle of the Act, which cannot be carried out in practice, without involving the country in ruinous consequences. This discovery the Bank Directors have long ago made, and, therefore, they do not carry out the principle of the Act, though they obey it to the letter. They enlarge the issues of notes when, according to the principle of the Act, they ought to restrict them. Thus they temporise with the evil, but they never get over it, and it often gets over them. They see the evil, but they have no power to escape from it. But the Bank is never in danger, and they know that. They know that the danger and the loss are chiefly to the trading community and the working classes,—who, in fact, are literally plundered without their knowing it,—but the great capitalists know it, and they share the plunder with the Bank. But then,—to mitigate these hard words,—they do not know how to help it, and our friend, of 'Westmeath,' almost admits this in his *final suggestions.*

Such is the mystery of the Bank Act of 1844,

nor will the mystery ever be cleared up, until the false principle on which the Act proceeds be abandoned.

The foundation is a fiction, and the whole structure is a baseless fabric. It is a fabric of paper and gold resting on a mere paper foundation. To make it stand on this foundation, the fabric must be of paper only, and the buttresses alone must be of bullion. There must be much more paper, and much less gold; and the gold must not rest upon the paper, but the paper on the gold. There must be plenty of paper for all requirements, and something over to spare for special purposes, on extraordinary occasions. The gold must be quite apart, and be provided, as required, from the open market. There must be the means for purchasing gold at all times, and to any required amount.

By these means, and by these alone, can the paper foundation ever be made secure. With plenty of paper, and the means of obtaining plenty of gold, the foundation will be secure.

If plenty of paper send away the gold, purchases in the open market will always bring it back again, and these operations repeated will make it unprofitable to send it away. In the competition for gold, this country must always prevail over other countries, as long as it main-

tains its present pre-eminence in trade. Plenty of notes at all times, with the means of obtaining plenty of gold when required, is the surest way of maintaining that pre-eminence.

The market of gold thus controlled, would make England the best market for gold in Europe;—it is that now, but then the trade in gold would be profitable to England, instead of being, as it is now, a very losing trade.

But, with this command over the market, why should the Bank of England keep in hand a larger stock of gold than sufficient to meet the ordinary requirements for change, and for foreign payments?

If wanted for export, as merchandise, why should not the Bank Directors, like other merchants, buy the gold when wanted?

But when the price was raised by such a purchaser in the market as the Bank of England would then be, foreign countries would find it less profitable than they do now to come into competition with the Bank of England in the open market for gold.

But, if they do come into competition, why should they not, if they pay the market price?

And, why should not the Bank of England deal in gold, as merchandise, provided this in no way interferes with the Bank of England, as a National Bank?

Dealing in gold, as merchandise, is a trade quite separate and distinct from banking, and the one need not in any way interfere with the other, for that must be a very defective system of banking which is subject to such interference.

But this is just the interference to which the Bank of England is subject, and which operates with such fatal severity against the trade and industry of this country.

But for the bad precedent of such a departure from a now almost universally acknowledged principle, it would be better for the country to revert to the old absurdity of a duty on the export of gold. Such an export duty might easily be so arranged, on a scale varying with the amount of specie in the Bank of England, as to "correct the exchanges" quite as effectually as by varying the rate of discount under the present system, and without imposing on the exporters any payments beyond their present payments, but to the saving of the community from the money-panics and convulsions to which they are now exposed by the rise in the rate of discount to stop the export of gold. This would be a disgraceful departure from principle, and a lamentable retrogression for the Nation; but, still, *per se*, this would be the saving of a great loss to the Nation.

But a much better way than this is here shown for clearing up the mystery which overhangs the question, and for making the Bank Act of 1844, now one of the greatest misfortunes of the country, one of its greatest blessings.

## CHAPTER XI.

### THE PRESENT AND THE PROPOSED BANK CHARTER ACTS COMPARED.

THE three most prominent and effective of all the proposed changes will be:—

1. Restoring the actual and independent capital of the Bank of England:

2. Raising the credit capital of the Bank from £14,000,000 to £40,000,000.

3. Empowering the Bank to issue notes, beyond the amount of £40,000,000, against gold and silver bullion, both or either, without limitation.

These additional powers, as already shown, will enable the Bank of England to exercise a much greater influence than it has ever yet possessed for the Organisation of Credit in England, by keeping down the price of loanable capital in England.

But, for making these powers more effective for this object, it is essential that the distinction

between the Issue Department and the Banking Department should be abolished; that the *maximum* rate of discount for the Bank of England should be 4 per cent.; and that the Bank of England should be prohibited from advancing money on loan.

Other important changes will be in throwing open the Royal Mint, for the coinage of gold and silver bullion in the coin of the realm, *free of charge;* and empowering the Bank of England to issue notes against gold and silver coin and bullion, without regard to proportions, but payable in gold coin only; and not making it compulsory on the Bank of England to give its notes for gold or silver bullion.

The effect of these changes will be to enable the Bank of England to increase the supply of gold and silver coin and bullion, and also of notes, when these are wanted, without inflicting any loss on the trade and industry of the country by raising the rate of discount, and at the same time to strengthen the basis of security for the notes.

Advancing the legal tender in silver to £5 will be an additional security to the Bank of England, and also an additional convenience to the country. The great demand for silver in the East Indies has actually produced, at several times, a very

inconvenient scarcity of silver in this country. In the year 1857 the silver sent to the East Indies amounted to £17,000,000, and from Marseilles £3,610,000, and for many years past the average annual export of silver to the East Indies has been £6,000,000 sterling. The effect of this has been that, very recently the Bank of England was compelled, from want of silver, to issue a notice to the public that no silver would be given in exchange for notes or gold, an announcement of no small inconvenience to those having to meet the Saturday Pay to large numbers of workmen. To the People the free circulation of silver is more important than that of gold.

Another great convenience to the country will be in removing the present singular anomalies in regard to legal tender money, by making Bank of England Notes discharge a debt in Scotland and Ireland, as well as in England.

The tendency of these changes will be to keep the exchanges favorable to this country. As before explained, the term "favorable," or "unfavorable," applied to the rate of exchange upon foreign countries, is simply a form to express whether more specie be coming in or going out. This has nothing to do with the profits of Traders, but has something to do with the profits of Bankers; as, when there is a demand for specie,

they keep on hand a larger stock of specie than usual to meet the requirements of their customers. This causes a temporary diminution of Bankers' profits. Hence, Bankers term the exchanges "favorable" when specie is flowing into the country, and "unfavorable" when flowing out. This, and nothing more, is signified by "the state of the exchanges."

The effect of these changes would be, to give the Bank of England more power to "correct the exchanges," or to keep them constantly favorable to this country, without raising the discount to a panic rate.

The discontinuance of the Issue Department, as separate and distinct from the Banking Department, will again strengthen the Bank, by making its assets at all times available for active and real service, instead of shutting up in the Bank vaults so many millions of gold bullion for inactive and wholly imaginary service.

As already shown, nearly seven millions of coin and bullion may now be in the Issue Department, and no part of this large amount may be available for the Banking Department; so that the Banking Department may be obliged to stop payment, when nearly seven millions worth of gold and silver coin and bullion are in the Issue Department.

This is a possible and not very improbable state of things, as experience has proved, but this could hardly have been intended or foreseen.

Lord Overstone (then Mr. Samuel Jones Loyd) the Author, or supposed Author, thus explained the object of his new measure:—

"Contraction of circulation is to be made precisely coincident as regards time and amount, with diminution of the bullion; and thus, it is conceived that, the danger of total exhaustion, which could not befal a metallic circulation, will be rendered equally impossible with respect to a mixed circulation of gold and paper. The result remains to be ascertained; but all reasoning confirms the soundness of the grounds upon which this experiment is founded, and justifies a sanguine expectation that, by a close and steady adherence to principle, the safety of our monetary system will be more effectually secured. Whatever may be the inconvenience to the public involved in the measures necessary for this purpose, it would be unwise in the extreme not to submit to it."

So wrote Mr. Samuel Jones Loyd in 1844, when "the result remained to be ascertained." In 1847, the third year of the trial of *this experiment*, the *result* was *ascertained*, and, as is too well remembered by many, was proved to be a total failure.

But, notwithstanding that failure, and the no less disastrous failure ten years afterwards, it is still maintained by the advocates of the theory for dividing the Bank of England into two separate and distinct departments that, the Act did what it was intended it should do, namely, prevent an entire drain of bullion from the coffers of the Issüe Department. But, the answer is, *that* was not the real danger. The real danger was the stoppage of the Banking Department; and that was very nearly happening, although more than six millions of coin and bullion were then in the Issue Department.

But, if the Act did prevent an entire drain of bullion, the Act did not prevent a panic, and a loss of capital to the country very far exceeding the whole amount of coin and bullion in the Issue Department.

The power of the Bank of England to issue notes on the 2nd of January, 1847, was £28,258,260, and the reserve of notes in the Banking Department was £8,277,085.

On the 23rd of October, 1847, the power of the Bank to issue notes was reduced to £21,865,445, and the reserve of notes in the Banking Department was £1,547,270; further reduced, on the 30th of October, to £1,176,740.

Here was a decrease in the amount of notes

issued on the 23rd of October, 1847, compared with the amount of notes issued on the 2nd of January, 1847, of £6,392,815, and a decrease in the reserve of notes of £6,729,815, and a further decrease in the reserve of notes on the 30th of October, 1847, of £7,100,345.

On the 9th of January, 1847, the amount of notes in circulation was £20,836,845, and on the 18th of December, 1847, £17,758,255, being a decrease in the amount of notes in circulation of £3,078,590.

The amount of gold in the Issue Department on the 2nd of January, 1847, was £11,788,770, and of silver, £2,469,490, making together a total of £14,258,260.

On the 23rd of October, 1847, the gold was reduced to £6,745,354, and the silver to £1,120,091, making together a total of £7,865,445.

So much for Lord Overstone's theory for dividing the Bank of England into two separate and distinct departments; and so much for his sanguine expectation that "contraction of the circulation is to be made *precisely coincident,* as regards *time* and *amount,* with the diminution of bullion."

Lord Overstone appears to be under a great misconception of what may rightfully be de-

manded from him as a theorist. He is not entitled to frame a theory from one class of facts which does not fit, and excuse himself by saying that, if we cannot make it fit, it is because the ultimate facts are controlled by other and special facts. If we propound a theory, we are bound to prove all it asserts. It is not philosophical to assert a theory, and to make any special facts an excuse for not proving it. Whatever is a hindrance to proving a theory ought to be a hindrance to affirming it. The "variation theory" of Lord Overstone has been disproved by facts, and the best test of right or wrong for any theory is that, it does, or does not, fit perfectly.

Newton made it an absolute condition of adopting the theory of gravitation, that it should fit; and when, owing to incorrect data, he could not make it fit perfectly, he abandoned the speculation for many years.

It will be seen from the foregoing figures from the Bank Weekly Returns that, the fluctuations under the four different heads, the Issues, the Notes in circulation, the Bullion in the Issue Department, and the Reserve of Notes in the Banking Department, were in the following proportions in the year 1847, between the highest and the lowest amounts:—

| | Highest. | Lowest. | Decrease per Cent. |
|---|---|---|---|
| | £. | £. | £. |
| Notes Issuable | 28,258,260 | 21,865,445 | 22·7 |
| Notes in Circulation .. .. | 20,836,845 | 17,758,255 | 14·8 |
| Bullion in the Issue Department | 14,258,260 | 7,865,445 | 45·6 |
| Notes in reserve | 8,227,085 | 1,176,740 | 85·7 |

Thus, it appears, while the active circulation of the Bank was contracted 14 per cent., the bullion in the Bank diminished 45 per cent.; and while the power of the Bank to issue notes diminished 22 per cent., the reserve of notes in the Banking Department decreased to the extent of 85 per cent.

These facts ought to be conclusive against the separation of the Bank of England into two separate and distinct departments. Examples of the failure of this experiment might be multiplied to any required extent, but one example is as good as a hundred examples to show that there is something wrong in this theory.

As to "the inconvenience to the public involved in the measures necessary for this purpose," it is one thing to submit to a painful remedy which effects a cure, and quite another thing to submit to that which is no remedy but an aggravation of the disease.

The theory of "variation" which is the main principle of the Bank Act of 1844, and which now regulates our monetary system, is simply this:—When a large amount of gold is brought into this country, a corresponding amount of Bank of England notes is brought into circulation; and when gold is withdrawn a corresponding amount of notes is also withdrawn. If, for some temporary cause, all our monetary gold were sent abroad, all our Bank of England notes would at the same time disappear, and the country would be left without legal tender money of any kind, beyond forty shillings in silver. So, if gold money fail us, we are, *therefore*, to lose our paper money, and we are not to use silver for gold, though we have no gold and plenty of silver. This is the masterpiece of monetary science, which we are required to regard as the great discovery of our time, on which rests chiefly the fame of the greatest statesman of our time, and for the helping hand lent to this great work by the greatest Banker and Capitalist of our time, he was made noble by his Sovereign, to be held in perpetual remembrance by his grateful countrymen, for giving them an additional supply of bank-notes when they don't want any more, and for giving them none when they do want more; or, for giving them a double amount of

bank-notes when they have gold enough, and, when they have no gold, taking away their bank-notes and leaving them nothing.

This is called the Overstone "variation" theory, or, the rule of contrary.

The ebbing of the gold, which occasionally occurs in this country as in other countries, is temporary only, and as surely as the tide flows after the ebb, so surely would the gold return to us if left to the ordinary course of trade. The gold does not leave us through any depreciation of the currency, and it will come back again without any artificial measures taken to enhance the value of money. Under the present system, these transient ebbings of the gold, instead of being neutralised, are so treated as to produce a serious derangement of our measure of value. Thus we violate the sole object for which standard-measures are instituted.

The effect of the repeal of that clause in the Bank Act of 1844, which limits the issue of notes against silver bullion to the proportion of one-fourth of the gold coin and bullion in the Issue Department, will be no inconsiderable benefit to the trade of the country, by encouraging the import of silver into this country, now discouraged, and a very considerable relief to the Bank of England by removing the necessity, now im-

posed upon it by the Act, of keeping the exact proportions between the gold and the silver in the Issue Department.

This inconvenience was pointed out by Mr. Glyn in his evidence before the Committee of the House of Lords, in 1848, when asked:—

"Do you approve of that clause of the Act which restricts the Bank in the purchase of silver bullion?"

*Answer.* "I certainly do not. I think the restriction to one-fifth is very inconvenient, and, practically, in the spring of last year, it was found so. Merchants from the Pacific, whose returns are very much in silver bullion, found, when it arrived last spring, that there was no market for it here, and they had to send it over to Paris for return in bills of exchange, and when they came back there was a difficulty in discounting. The interval lost, which is about six weeks, is a very serious thing to a mercantile house; and there is another evil in it:—supposing the amount of bullion held in the Issue Department to be in exact proportions allowed by the Act, with one-fifth silver, and supposing £400,000 of notes go in, taking the same amount of sovereigns out, that immediately alters the proportions, and the Issue Department must necessarily sell silver bullion to keep the proportion

right, and thus *reduce the circulation another* £100,000 *to keep up the proportion.*"

It is hardly possible to imagine anything more absurd than this necessary consequence imposed by the Act!

There was scarcely a single witness who was examined before the Committee in 1848, that did not condemn this limitation of silver, including Mr. Morris, the Governor of the Bank of England.

Thus, the present system throws the whole weight of our commercial and trading operations upon gold, and as no compensating power is allowed to come in to the aid of our paper circulation, in the form of silver coin or bullion, when the gold is withdrawn from the Bank, the natural consequence is that, the mercantile credit of the country must be reduced to the level which will enable the Bank of England to bring down the amount of its notes in circulation to what is called, *a safe margin.*

Under the proposed new system these evils will disappear.

The ulterior effects of these important changes will be more numerous than can be easily told, but some of the immediate effects will be manifest.

The power of the Bank of England to issue Notes will be increased nearly four-fold.

The attempt to fix the price of gold in this country, by compelling the Bank of England to give notes on demand for gold bullion, at £3 17*s.* 9*d.* per ounce, will cease, and the Bank of England, like all other Banks, will be left free to buy gold and silver in the open market, at the market-price.

The trade in gold and silver will then be free, as the trade in all commodities ought to be, and this country will then be the best supplied market in the world for silver as well as gold.

By confining the issue of notes to the Bank of England greater stability will be given to credit generally, by one uniform issue of paper-money, substituted for the present issue by country-banks, at the will and pleasure of the issuers, without any security for payment, these notes circulating only within a certain confined radius from the place of issue, whilst Bank of England notes circulate throughout the length and breadth of the land, and are the secured legal tender money of the kingdom.

If it be considered by some a strong measure to deprive the private banks, now issuing their notes, from continuing to exercise this privilege, notwithstanding that it was conferred only as a temporary measure, and might be discontinued at any time, yet, when the necessity for discon-

tinuing it is more clearly seen, this may be no insuperable difficulty, and, at the worst, it is only a question of compensation. But when the Government refused to stamp any more one-pound notes, without which such notes could not be issued, and when they limited the period for issuing such notes, this was virtually a prohibition to issue one-pound notes beyond that period, but for that deprivation no compensation whatever was given.

As Mr. Lawson asks:—"Is it not strange that the framers of the Act, while applying to a large and wealthy corporation, like the Bank of England, very stringent regulations, in order to secure the convertibility of its notes, should have allowed so large an amount of the note circulation of the country to be conducted by men who, to adopt the phrase of Lord Liverpool, 'might have been coblers or cheesemongers,' and to give to such parties, whether good or bad, an absolute monopoly of the issues of the country? This was, however, absolutely done; not only was the monopoly granted to them for an indefinite period, but the amount of notes to be issued by each bank was fixed."*

* "The Bank of England, As It Is, And As It Ought To be." page 11.

It is not easy to see the answer to this question, nor has it ever been answered, unless by the suggestion that, this was a necessary concession to the country bankers for insuring the passing of the Act.

With regard to the Weekly Return of the Bank of England, the change proposed in the form of this return will be a great improvement for the convenience of the Public.

If this Weekly Return had been intended to disguise the facts most important to be known, the present form has been ingeniously contrived for the purpose.

It is of great importance that the financial state of the Bank of England, which is entrusted with the issue of the money of the country, should be clearly and precisely shown. This is not clearly shown in the present form, and all that is necessary to be known by the Public will be clearly and precisely shown in the proposed new form.

The following is the actual Account of the Issue and Banking Departments of the Bank of England, for the Week ending on Saturday the 9th day of May, 1857.

## BANK OF ENGLAND.

### ISSUE DEPARTMENT.

| | £ | | |
|---|---|---|---|
| Notes Issued . | 23,567,945 | Government Debt | 11,015,100 |
| | | Other Securities . | 3,459,900 |
| | | Gold Coin and Bullion . . . | 9,092,945 |
| | | Silver Bullion . | |
| | £23,567,945 | | £23,567,945 |

### BANKING DEPARTMENT.

| | £ | | |
|---|---|---|---|
| Proprietors' Capital . . . . | 14,553,000 | Government Securities, (including Dead Weight Annuity) . . . | 10,303,838 |
| Rest . . . . | 3,328,676 | Other Securities | 12,630,357 |
| Public Deposits, including Exchequer, Savings Bank, Commissioners of National Debt and Dividend Accounts . . | 5,163,146 | Notes . . . . | 4,226,355 |
| | | Gold and Silver Coin . . . . | 715,182 |
| Other Deposits . | 10,081,864 | | |
| Seven Day and other Bills . . | 749,046 | | |
| | £33,875,732 | | £33,875,732 |

It will be seen, from the foregoing Account, that the Issue Department purports to represent the amount of Notes issued, £23,567,945; whereas, the amount actually issued was only, £19,341,590.

Of these notes actually issued, £14,475,000 were issued against Government Securities, leav-

ing only £4,866,590 issued against bullion. And yet, gold coin and bullion, to the amount of £9,092,945, are entered in this Account of the Issue Department!

Now, here are two deceptions practised.

1. Notes to the amount of £4,226,355 are stated to be issued, more than are issued.

2. Gold Coin and Bullion to the amount of £4,226,355, which ought to be in the Banking Department, are placed in the Issue Department.

In the Banking Department, the Account is, in like manner, untruly stated, the amount of Notes there entered as issued being £4,226,355; whereas, in fact, there are no such notes issued, there being only a power to issue them, but which power was not then exercised. If actually issued, as they ought to have been, and if the same amount of gold coin and bullion had been placed to the account of the Banking Department, instead of the Issue Department, the Notes in reserve in the Banking Department would then have been £4,226,355; and the Gold and Silver Coin and Bullion would then have been £4,941,537, making the total reserve of Bank Notes, and Gold and Silver Coin in the Banking Department, together, £9,167,892, instead of £4,941,537.

Thus, absurd and useless as is the division

into two separate and distinct Departments, this account, if truly stated, would, at least, be intelligible to everyone, instead of being, as it now is, intelligible only to a few, and a delusion and a snare to many.

By the Account in the form proposed, the amount of notes in circulation, and the real reserve in the Bank, applicable to the accommodation of the Public, are stated in plain and unmistakeable figures.

It will be seen that, this is not a mere question of form in the statement of the Account, but that a substantial defect is exposed in the system, for it is manifest that, but for this absurd and deceptive system, the Public, on the 9th day of May, 1857, would have had the accommodation, and the Country the benefit, of a reserve of bank-notes and gold and silver coin and bullion, together, £9,167,892, instead of a reserve of bank-notes and gold and silver coin together, only £4,941,537.

How great would have been the accommodation to the Public and benefit to the country at that time of severe financial pressure needs no explanation.

Few, probably, read in the newspapers the Weekly Return of the Bank of England, for many do not understand even the meaning of the terms used in that Account, and those who do are not

much the wiser. To the inexperienced, the conjuring tricks played off between the Issue and Banking Departments must be suggestive of *thimble-rigging*. When the inexperienced eye looks for the paper note or the gold sovereign in one department, it is pretty sure to be in the other, and how it came there is no more clear than how the pea comes under the conjuror's cup.

At any rate, all *hocus-pocus* will be got rid of in the new form of the Weekly Account. All that is immaterial is excluded, and all that is material is presented in a form intelligible to the commonest understanding.

The following explanation of the items in the present form of the Weekly Account will show the clearness and simplicity of the new form.

The credit side of the present Weekly Account commences with the Government Debt to the Bank of England.

Debt was the foundation of the Charter, as well as the means of the great success and power which the Bank of England has since obtained over other Banks, and to this hour Debt forms the basis of its privileges and prosperity.

But the error is when this forms the only foundation, and this is the weakness of the Bank of England.

The same error has been committed in the

foundation of the Bank of France, a great part of its capital being advanced to the Government without interest.

The Government that granted the Charter to the Bank of England began by borrowing of the Bank, and almost every succeeding Government has been guilty of the same abuse. No attempt was made to repay any part of this Debt for nearly 100 years, namely, between 1738 and 1835, as shown by the following statement, giving the origin and progress of the Debt:—

THE PUBLIC DEBT DUE TO THE BANK.

| | | £. |
|---|---|---|
| 1694. | Original Subscription lent to Government at 8 per cent. per annum . . . . . | 1,200,000 |
| 1708. | Advanced to Government without interest . . . | 400,000 |
| „ | Exchequer Bills cancelled . | 1,775,027 |
| 1717. | Ditto ditto . | 2,000,000 |
| 1722. | Advanced to pay off South Sea Stock-holders . . . | 4,000,000 |
| | | £9,375,027 |
| 1727–8. | Deduct amount paid from the Sinking Fund . . | 1,775,027 |
| | | £7,600,000 |

| | | £. |
|---|---|---|
| 1728. | Advanced on the Security of Taxes . . . . . | 1,750,000 |
| „ | Ditto upon Lottery . . . | 1,250,000 |
| | | £10,600,000 |
| „ | Paid from Sinking Fund . . . 500,000 | |
| 1738. | Ditto ditto 1,000,000 | |
| | | 1,500,000 |
| | | £9,100,000 |
| 1742. | Advanced without Interest . | 1,600,000 |
| 1746. | Exchequer Bills cancelled . | 986,800 |
| 1816. | Advanced at 3 per cent. Interest . . . . . | 3,000,000 |
| | | £14,686,800 |
| 1835. | By the transfer of £4,080,000 Reduced 3 per Cent. Annuities, equal to one-fourth of the debt in accordance with the 9th section of the Charter Act of 1833 (3 and 4 Will. IV. c. 98) . . . | 3,671,700 |
| | Total Debt | £11,015,100 |

This total will be found to correspond with what is called the "Government Debt," which

is placed on the credit side of the Weekly Returns of the Bank, forming part of the basis on which its notes are issued.

The sum of £2,984,900, which makes up the total of £14,000,000, consists of other securities held by the Bank for claims it possessed upon the Government when the Act of 1844 first came into operation, and this sum, as before mentioned, was further increased to £3,459,900 in December, 1855, making up the total of £14,475,000, which has been subsequently increased by lapsed issues, to £14,650,000, on the credit of which the Bank now issues its notes to that amount.

The "*Weekly Returns*," as they now appear in the *London Gazette*, give no account of the notes *actually* issued, or of the amount in circulation, but these facts are to be obtained, as already shown, from the Accounts of the Issue and Banking Departments.

The "*Proprietors' Capital*" requires no explanation, this being the amount which has been from time to time authorised by Parliament.

The "*Rest*" is simply the amount to the credit of the Bank when all its liabilities are balanced against its assets, thus:—The total amount of securities held in the Banking Department on the 9th day of May, 1857, was

£33,875,732, but its liabilities on the other side were only £30,547,056, leaving a surplus balance of £3,328,676, which was the amount of the "Rest." This mode of keeping the Accounts was introduced into the Bank management in 1722.

"*Public Deposits*" constitute what is considered the Treasury Account of Government in the hands of the Bank; and "*Other Deposits*" belong to private individuals, public companies, or corporate bodies. Independent of the Discount Accounts, nearly all the Bankers have what they call 'Drawing Accounts' at the Bank of England, or 'Deposit Accounts.'

"*Seven Day and other Bills*" comprise the various Bills of the Bank due at different dates. These together comprehend the debit side of the returns in the Banking Department

The "*Government Securities*" on the credit side are made up of various kinds held by the Bank for the purpose of realisation, including the "*Dead Weight Annuity*," which is an Annuity of £585,740 paid by the Public to the Bank until 1867.

The meaning and origin of this term—"Dead Weight"—are not generally understood. It means the payment by the Government to the Bank of England of an Annuity of £583,740, and originated in a bargain made by the Government with the Bank in the year 1823, whereby the Bank, in

consideration of this Annuity, payable by the Government for 45 years, to terminate in 1867, agreed to advance to the Government, within 5 years, the capital sum of £13,089,419, to enable the Government to pay the money due for pensions to the retired officers of the Army and Navy, and the widows of officers who fell at Waterloo.

The Bank of England accepted the terms and advanced the money, and has been receiving from the Government, since the year 1823, this Annuity, under the expressive name of the "Dead Weight," for such it has been to the Government, and also a very heavy loss to the Bank of England, which ought never to have entered into such a transaction. The Bank having no capital of its own advanced this large sum of £13,089,419 out of the deposits belonging to the customers of the Bank, for which no interest was payable, but for which the Bank was equally liable as for its notes, payable on demand. If the depositors had been acquainted with that transaction at the time, and if they had been alarmed for the safety of their deposits, they might have demanded instant payment, and then the Bank must have stopped payment, or the Government must have come to the rescue. In the material point, there is too much similarity between this case and those cases of some other banks of painful notoriety.

What will be the situation of the Bank of England in 1867, when this Annuity will cease, is a question which concerns the commercial community of this country. But, perhaps, the Bank, with the certainty of this approaching diminution of its resources, has been prudently preparing for the event. In an ordinary case, the Court of Chancery would certainly have held this to be a misapplication of the trust fund, and a gross breach of trust, being contrary to the express provision of the Trust Deed, or, in this case, the Charter.

"*Other Securities*" comprise all descriptions on which the Bank make advances, including bills under discount.

The gold and silver coin requires no explanation; but the item called "*Notes*," is not very intelligible and is frequently misinterpreted.

As already remarked, the Bank returns do not give the amount of notes actually in circulation, and what are called "Notes Issued," in reality indicate only the *power* of the Bank to issue such Notes. Therefore, to ascertain the amount of Bank of England notes in actual circulation, the amount given under the head of "Notes," in the Banking Department, must be deducted from the "Notes Issued" in the Issue Department, which leaves the amount in actual circulation, or out of

the Bank; thus:—in the Weekly Return of the Bank, for the Week ending on Saturday, the 9th day of May, 1857,—(given on page 325) the "Notes Issued" amounted to £4,226,355, and, deducting the latter from the former sum, leaves £19,341,590, which was the amount of notes in actual circulation at that time.

The "*Notes*," therefore, forming the "Bank Reserve," are simply the amount of notes unemployed in the Banking Department; the notes in circulation with the public being one portion of the Bank's issue, and the notes in reserve being the other.

As the notes in the Banking Department, with the gold and silver coin, are the only means for meeting the requirements of the public, it is obvious that, if three or four of the great joint-stock banks were to agree to withdraw, at the same time, £2,000,000 each from the Bank of England, which they could do at any time with the most perfect ease, the Bank of England must stop. The bullion in the Issue Department would avail nothing to the Banking Department deprived of all its notes. But the Issue Department may also be without a sovereign. The Act does not require that any amount of bullion should be kept in the Issue Department. There might not be a single sovereign in the Issue Department,

nor a single note in the Banking Department. The Bank might be utterly without gold or silver or paper, and yet there might be £14,000,000 of its notes in circulation. All this might happen and still be in strict accordance with the provisions of the Act of 1844. And what, if all this were to happen, would be the consequence? Great inconvenience to the community. Nothing more. The convertibility of the note could not be brought into question. The Government guarantee would save the note holder. The depositors would be safe for their deposits. There would be a little delay. Nothing more. The holder of the sovereign would have the security in his own pocket. The holder of the note would be equally secure. Many Bankers, Merchants, and Tradesmen would stop payment, to renew when the Bank of England was re-established on a broader and a safer basis. Business would not be suspended. The embarrassment would be general, but of short duration. All would soon be restored on a much more easy and permanent footing.

In the meantime, as long as the Government furnished the means, payment of the dividends to the public creditors would continue to be made at the Bank, each Loan Act containing a clause constituting the Bank of England a Corporation

until the loan be paid off, and directing that, the interest on such loan shall be paid at the Bank of England, thereby constituting the Bank of England a corporation until the whole of the National Debt be paid off.

This is the pledge and the only pledge that Parliament has given of the permanency of the Bank, and, though deprived of all its other privileges, still the Bank of England would be a corporation for the payment of the dividends to the public creditors. The holders of stock, therefore, are entitled to insist that the dividends shall continue to be paid at the Bank of England, and whatever may be the embarrassments of the Bank, these need not interfere with public faith to the prejudice of the interest of the Stockholders, so far as regards the punctual payment of the dividends on the National Debt.

In the meantime, until the Bank of England should be re-established, the business of the country would be carried on by the other Banks through bills and cheques, and though the interval of suspension would be attended with great inconvenience to the trading community, the loss to the country would be insignificant in comparison with that which is continually recurring under the existing system of the Bank of England.

It is not in the nature of things that many more years should elapse without that combination of circumstances which must bring the Bank of England to *a dead stop*. Great as that misfortune would be at any time, still it would be greatly aggravated if at a time of domestic or foreign disturbance. Nothing could be more fortunate for the country than such an occurrence falling upon a time of peace and plenty. Nothing could be more fortunate for the country than such a speedy termination to the existing Bank Act, unless that *happy event* were brought about by the unanimous determination of the Legislature. But, of all unlikely events, that is least likely to happen. The other is much more likely, and that is not very unlikely.

The bills becoming due to the London and Westminster Bank alone in November and December, 1857, are stated to have amounted to £5,623,000.

Therefore, that Bank alone could, at its pleasure, stop the Bank of England by only watching for the opportunity. It could have done so easily in November or December, 1857. Unfortunately for the country, it is not worth the while of any Bank to do so. But let not the Government count upon that as always to be so, for some day it may happen to be otherwise, and,

however that may be, the day of trial must come under which the Bank Act of 1844 must fall.

Under the proposed new system, it must be unnecessary to give the public any more information on the transactions of the Bank than is given in the new form of the Weekly Account, and the public can have no concern with the Deposits, public or private, in the Bank, when the Bank is prohibited from using these deposits as capital of the Bank. These entries, now not unimportant, would then be only confusing.

The fair principle of making the Bank of England accountable to the Government for the profits on the Issue of Notes beyond the Proprietors' Capital is continued. It is important that the Bank of England should be above the suspicion of being influenced by its own interests in the issue of notes, or in the rate of discount.

For the remuneration of the Bank for the loss of profits consequent on these restrictions, and for its management of the Public Debt, it is proposed to raise the allowance to the Bank to £250,000 per annum.

It is also proposed that the Government should allow to the Governor, the Deputy Governor, and Directors of the Bank of England, for their personal services, the yearly sums before mentioned. These are very honorable offices, involving high

trust and responsibility, and it is not fitting that such offices should be, as supposed to be, without any direct emolument.

According to the evidence of Mr. Thomson Hankey, one of the Directors, in his evidence before the Committee of the House of Commons, the financial operations of the Bank of England average £3,500,000 a day.

The sections 14, 15, 16, in the existing Bank Charter Act, regulating the union of Bank partnerships, must be re-enacted. But this ought to be by a separate Act, and the same principle ought to be extended to all partnerships.

The sections in the existing Act, relating to other Banks of Issue, being proposed to be repealed, any further notice of them here is unnecessary.

For the manner in which the Public Debt is managed and the Quarterly Dividends are paid by the Bank of England it may be said, without fear of contradiction, that this is the nearest approach to a perfect system which it is possible to conceive.

When the magnitude of this account and its innumerable, intricate, and minute divisions and subdivisions are considered, with the necessity of extreme accuracy, the practically perfect result brought out by this vast and complicated machinery worked entirely by human heads and hands,

subject to all the human weaknesses and infirmities, the impression is that of wonder and admiration at the powers of the human mind, which could conceive and carry out such a system to such perfection.

To those who know little or nothing about it, the following short and clear explanation, from Mr. Lawson's excellent treatise on Banking, may be interesting.

"The Lords of the Treasury direct Warrants to be drawn out, which are sent to the Auditor of the Exchequer, who directs an order to be made out for the Teller of the Exchequer to pay certain sums to satisfy the Dividends then due. The Warrant and Order are sent to the Treasury, which returns them to the Auditor of the Exchequer, who keeps the Warrant in his own possession for his security, and upon the Order directs the Teller of the Exchequer to pay certain sums thereon to the amount of the Dividends then due and specified, which is done by giving to the Clerk of the Bank as many Exchequer Bills of £1000 each as the said quarterly dividends amount to, and for which the Chief Cashier gives a receipt, and thus the Bank pays each claimant a dividend thereon.

"The manner in which the Bank proceeds in preparing the Dividend Warrants is, by making

the amount of each party's stock agree with the amount of that particular stock, and the amount of interest on each Warrant to correspond with the total amount of interest due on that particular stock by Government; but, as the Bank never pays the fractional parts of a penny, they are compelled to calculate the interest on each warrant to the third figure of decimals beyond a penny, which prevents, as far as human prudence can, the possibility of an error. The total differences of the decimals yield to the Bank a net profit of more than £100 per annum."*

The courteous attention which the Public meet with on all occasions and in every department of the Bank of England is universally acknowledged, and with a few simple amendments in its constitution, the Bank of England would be a National Establishment with which none other in the world could compare, and it would be a model from which all the civilized nations of the world would copy.

The Bank of England is, in fact, a mere machine for circulating the notes which pass under its name, but against the responsibility of the Government to a certain fixed amount, because experience has shown that the amount of notes in circulation will never fall below that amount, and

* Lawson on Banking, page 184.

above that amount every note is issued against an equal value of bullion or specie deposited in the coffers of the Issue Department. Although an affair of the State, here the State has no power, and here is no interference whatever with Banking, but the issue of notes is restricted to secure the convertibility of the Note.

The Bank of France is under a different and more imperfect law. It has an absolute monopoly of the issue of notes throughout the Empire, (and so far is more perfect), with the doubtful exception of Savoy, and there is no restriction on the amount of its issues; but, in exchange for this profitable privilege, a very considerable proportion of its capital is lent to the State without interest. The exclusive privilege of issuing notes is sold to the Bank of France, and the responsibility of preserving the convertibility of the note is intrusted to the Governor and Directors of the Bank, subject to the additional but questionable safeguard that the Governor of the Corporation is a nominee of the Emperor. The effect of this is to place the Bank of France wholly in the power of the Emperor.

The superiority of the Bank of England over the Bank of France, in the most essential requisites for such a National Establishment, is, therefore, obvious. Nor can anything be better imagined

for securing the honourable and independent management of the Bank of England, than leaving its affairs to be conducted by a Governor and Deputy Governor, elected annually out of the Directory, and twenty-four Directors, selected from the most eminent and practical merchants in the City of London, and filling the heads of the numerous departments with men brought up in the Establishment and raised, through the various gradations, to the highest positions, by honorable conduct and superior intelligence. Perhaps, in no establishment in the world can so many honorable and able men be found collected together and so well qualified for their important and responsible duties as in the Bank of England.

But though the Bank of England be in a position very superior to that of the Bank of France, in regard to independence of the Sovereign power, yet, it must be admitted that, the Bank of England is not so independent as it ought to be of the Government power, in regard to the advances of money by the Bank to the Government by way of loan.

This defect would be removed by the provision proposed, prohibiting the Bank from making any advance by way of loan.

But this provision would not prevent, nor would

it be expedient to prevent, the Bank of England from being a resource to the Government for ready money on emergencies, and such emergencies must occasionally occur.

It would still be open to the Bank of England to advance money to the Government on Exchequer Bills, by way of purchase.

The Exchequer now issues three descriptions of Exchequer bills, namely, "deficiency bills," "ways and means bills," and "supply bills."

1. "*Deficiency Bills.*" These are issued to the Bank of England as security for sums advanced to the Government to make good any deficiency in the consolidated fund, for payment of the interest of the National Debt, and other charges.

2. "*Ways and Means Bills.*" These are issued to the Bank of England as security for funds advanced to the Government to supply the deficiency in the consolidated fund, to meet the grants of ways and means for supply services.

3. "*Supply Bills.*" These are voted annually in Committee of Ways and Means, either to supply funds by the sale thereof, for defraying the public expenditure when the income derived from taxation is insufficient for that purpose, or to meet a vote in supply for paying off outstanding Exchequer bills, voted in the preceding session of Parliament.

The deficiency bills are made payable to the Governor and Company of the Bank of England, or to their order.*

In the Report of the Select Committee on Public Moneys it is stated that, from 1842 to 1855, 450,000 Exchequer bills were issued, representing the enormous amount of £400,000,000, sterling, besides Exchequer bonds, which were first issued in 1853.

Of these Exchequer bonds, amounting to £46,000,000, sterling, or £7,000,000 more in amount than all the banks' promissory notes payable to bearer on demand in circulation on the 18th of March, 1854, in England, Ireland, and Scotland, no return is made, though carefully prepared returns are made of the amount of bankers notes in circulation.†

It does not come within the scope of the present work to comment on this objectionable practice of the Government in regard to the issue of this large amount of Exchequer bills, which are, in fact, Government promissory notes payable to bearer, but as these are, like bills, purchasable in the market, at the market-price of the day, it would not be expedient to prevent the Government from taking these bills to the Bank of

* Lawson—"Bank of England," etc. Page 83.
† Ibid. Page 84.

England and exchanging them for Bank of England notes, or selling them at the market-price of the day. But this is a great drain of bank-notes, and tends to raise the bank-rate of discount on all trade bills.

This comparative view of the two systems in practice in the Bank of England and the Bank of France will suffice to show that, in the changes proposed there is no disregard of any natural law, nor any attempt to force a deviation from the natural course; but only an attempt to adapt the artificial to the natural, and to make the whole work together uniformly and consistently with known and recognised principles, instead of bringing the artificial and the natural, or the paper-money and the gold, into continual conflict and disturbance, as under the present system.

The measures proposed are founded on the assumption that, the mission of the Bank of England is to provide, not the loanable capital, but the currency or medium for the convenient transfer of the loanable capital, for carrying on the trade and industry of this country,—without regard to any other interests; and that, when the interest of money in this country exceeds the ordinary rate, it is the first duty of the Bank of England, by every means in its power, to check that excess, and restore the normal state, and

thus to maintain a watchful superintendence and a regulating power for the Organisation of Credit in England.

To make these views still more clear, it may be convenient to show in more detail, the principles on which these views are founded, and wherein they are directly at variance with the principles and practice of the Bank of England under the existing Act.

By this Act the Bank of England is authorised to issue notes to the amount of fourteen millions, sterling, against an equal amount of Government Securities; and further to issue an amount of notes corresponding with the value of the gold and silver in the Issue Department of the Bank. Although it be discretionary with the Bank Directors to exercise this power or not, yet, under no circumstances can they exceed it.

Now, as it is an universally acknowledged fact that, the issue of notes against Government Securities is very much below the amount always and absolutely required for the ordinary purposes of the country, it follows, as a necessary consequence, that the amount of notes in circulation is constantly varying with the amount of gold and silver in the Issue Department, and that the rate of discount is constantly varying with these fluctuations.

That this is one of the evils of the present system, cannot be doubted, when the extraordinary variations, subsequently to the existing Act, are compared with the ordinary variations previously. For proof of this fact it is necessary only to refer to the printed lists, easily obtained, and which, therefore, need not be here given.

But it is also a fact, though not so generally known, that the rate of discount does not always rise in proportion to the diminution of the gold and silver in the Issue Department, and that the amount of notes in circulation often increases as the amount of gold and silver in the Bank diminishes. This has been already shown, and the examples which might be given are endless.

From these examples it will be seen that the principle of the Act is at variance with the practice of the Bank of England.

According to the Report of the Committee of the House of Commons in 1858,—"The main object of the Act of 1844 was undoubtedly to secure the *variation* of the paper-currency of the kingdom according to the same laws by which a metallic circulation would vary."

But Mr. Goulburn, then Chancellor of the Exchequer, in his Letter to the Governor of the Bank of England, (April, 1844,) explanatory of

the Act, stated that, its chief object was, "to place the general circulation of the country on a sounder footing, and *prevent as much as possible, fluctuations in the currency*, of the nature of those which have at different times occasioned hazard to the Bank and embarrassment to the country."

Sir Robert Peel, in the House of Commons, on the 3rd of December, 1847, said: "The Bill of 1844 had a triple object. Its first object—that in which I admit it has failed—was to *prevent severe and sudden contraction*, and the panic and confusion inseparable from it. But the Bill had two other objects,—the one, to maintain and guarantee the convertibility of the paper-currency into gold; the other, to prevent the difficulties which arise at all times from undue speculation being aggravated by the abuse of paper-credit in the form of promissory notes."

These remarks of Sir Robert Peel were made after he had gained experience from the recent crisis, and after the failure of the Act in one of its principal objects. But here is no allusion to the "main object" declared by the Committee of the House of Commons ten years afterwards.

He repeatedly and explicitly stated that, the great object of the Act, after securing the convertibility of the Notes, was to prevent the sudden contraction and undue expansion of the cur-

rency; but, for one practical result, namely;—"to ensure to industry its legitimate profits."

Of Lord Overstone's doctrine that,—the supply of paper-currency ought to vary with that of gold,—there is not a word either from Mr. Goulburn or Sir Robert Peel, and, if that doctrine be right, when our gold diminishes, and we are most in need of bank-notes, we ought to diminish our bank-notes; and, when all our gold is gone, we ought to cancel all our notes, to bring gold and paper-notes to an equal amount, and so, leaving nothing, nothing would be left to vary.

But, the practice of the Bank of England, for some years past, seems not to have followed in any of these courses, for the ordinary note-circulation of the Bank is twenty-one millions, whatever may be the stock of gold in the Bank or the rate of the Bank discount, which is sometimes 8 or 9 per cent. when there are thirteen millions of gold in the Bank, and sometimes 4 or 5 per cent. when there are sixteen millions of gold in the Bank.

According to the "Overstone theory" of variation, when the stock of gold in the Bank falls below sixteen millions, the amount of notes in circulation should be reduced to a corresponding extent. Thus, when the stock of gold falls from

16 to 13 millions, the note-circulation should be reduced from 21 to 18 millions; and when the stock of gold falls to 10 millions, the notes in circulation should be reduced to 15 millions. But, practically nothing of the kind follows, and very often the result is quite the reverse.

The practice seems to be, to increase the note-circulation by lowering the rate of discount. This, though it endangers the stock of gold and often leads to a high rate of discount in the end, is the least objectionable practice, in the choice of evils. But, if the Bank of England were in possession of its own independent capital, with a large extension of its credit-capital, this course might be persisted in without raising the rate of discount, even through a run for gold, and thus great losses would be saved to the country.

Mr. Patterson seems to think that, a suspension of discounts by the Bank of England "would bring our whole fabric of commerce to the ground, and occasion a crisis unparalleled in severity." *

But, with the ordinary amount of notes in circulation, and an ample reserve in the Bank ready for all ordinary occasions, that must be an extraordinary occasion which could raise the rate

* "Economy of Capital."—page 202.

of discount above 4 per cent., against the power which the Bank of England, with its independent capital of £14,553,000, in addition to its credit capital of £40,000,000, could bring to bear for arresting the efflux of gold. But the community would still have all the other banks of discount and financial companies open to discount at the market-price of money.

To reduce the paper-currency in proportion to the diminution of the metallic currency is, practically, impossible, and any theory founded on an impossibility must be an absurdity.

The theory which would reduce the paper-currency in proportion to the diminution of the metallic currency is in direct opposition to the true theory of a paper-currency, which is, to economise gold; and the Bank Directors have, by experience, found this to be the true theory, for they no longer attempt to observe that rule of proportion; but, on the contrary, they enlarge their discounts without regard to the amount of bullion in the Issue Department.

But, unfortunately, the reserve in the Banking Department, at all times inadequate, is unable to meet the demands upon it thereby increased, and the iron grasp of the Issue Department cannot be relaxed by the Banking Department. Thus, the practice is at variance with the principle, and,

in the continual conflict, the evil principle often prevails over the good practice, sometimes even so far as to make this good practice ultimately an aggravation of the evil principle.

The Bank Directors, therefore, in their practice do not acknowledge the Overstone "variation" theory, approved by the Committee of the House of Commons in 1858, nor the "over-issue" theory of Sir Robert Peel, nor have they yet accomplished Mr. Goulburn's "main object" to "prevent fluctuations in the currency."

On the 24th December, 1852, when the total amount of bullion in the Bank of England was £20,749,000, the Bank Directors might have increased the issue of bank-notes from £22,226,000 to £34,749,000, that being the amount of notes which the Bank of England was then authorised to issue, namely,—14 millions on Government Securities, and £20,749,000 on gold.

The Bank-rate of discount was then 2 per cent.

On the 24th December, 1853, when the total amount of bullion in the Bank of England was £15,819,000, and the amount of its notes issued was £20,810,000, that amount might have been increased to £29,819,000.

The Bank-rate of discount was then 5 per cent.

It will be said that, the Bank-rate of discount being 2 per cent., was evidence that more notes

were not wanted, and could not have been got into circulation. That might have been so, but can it be said that, when the Bank-rate of discount was 5 per cent., it might not have been reduced to 2 per cent.?

But, what if more notes could not be got into circulation?

Is that any reason for not issuing them, and having them in the Banking Department, ready for circulation when wanted?

On the 25th October, 1847, when the bullion in the Bank of England was only £7,865,445, the amount of Bank of England notes issued was a little above the ordinary average of 21 millions; but the Bank-rate of discount was then 8 per cent.

The present system of the Bank of England, therefore, if it have any system at all, appears to be, to disregard the amount of notes issued, and to take no measures for withdrawing any of its notes from circulation, for stopping the efflux of gold from the Issue Department, but to rely entirely on a high rate of discount, when the absolute necessity for it arises.

And so, with regard to the amount of its notes in circulation, there seems to be a limit beyond which the Bank will not go, even if it can, either for increase or reduction, whatever may be the

amount of bullion in the Issue Department, though, as a general rule, the Bank Directors, when they have fourteen millions of gold, act as if they had only seven millions. They may be right, or may be wrong, but their experience is a safer guide than an untried theory, and they carefully observe the positive provisions of their Charter, though they act as they please within the limits there prescribed. That they have their own rules for their guidance is clear, though these do not appear to be formed on any principle, nor to deserve the name of a system. But that they would not disregard some principles if they were permitted to carry them out, may be assumed. They have proved the existing Act to be unsound, and that, while strictly following its provisions, they disregard its theory in practice as erroneous in every principle avowed by its authors and promoters.

Why, then, should the Act be any longer preserved, when the principle has been pronounced *erroneous* by those who ought to be the most competent judges?

In every object, but the convertibility of the note, which was never in danger, the Act has been proved to be a signal failure.

Instead of obviating those "fluctuations which have at different times occasioned embarrassment

to the country," those fluctuations have been multiplied to an extent never before known in the history of the Bank of England.

In the year 1847, the amount of discounts by the Bank of England was £38,394,587. For this sum the rate of discount was from 3 to 4 per cent. on £8,796,597, and from 4½ to 9½ per cent. for the remaining £29,597,990, the largest amounts discounted being £7,759,795, at 5 per cent.; £6,439,165, at 6 per cent.: £1,906,168, at 6½ per cent.; £1,133,059, at 7 per cent.; £1,680,296, at 8 per cent.; and £780,761, at 9 per cent.

In 1848, the fluctuations were chiefly between 4 and 6 per cent., the largest amounts discounted being £1,725,925, at 4½ per cent.; and £9,17,911, at 5 per cent.; the total discounts in that year being £8,835,577.

In the years, 1849, and 1850, the range was more equal between 2½ and 5 per cent.; the total discounts in 1849 being only £4,506,279, and in 1850 £7,479,563.

In 1851, the range was steady between 3 and 4 per cent.; the total discounts being £15,284,204.

In 1852, the range was steady between 2 and 3 per cent.; the total discounts being only £7,762,061.

In 1853, the rate was in continual variation between 2 and 6 per cent.; the total discounts being £25,924,981.

In 1854, the rate was in continual variation between 5 and 6 per cent.; 5 per cent. being the *minimum*, and 6½ the *maximum* rate of the whole year; the total discounts being £21,686,762.

In 1855, the rate was in continual variation between 3½ and 7½ per cent.; the total discounts being £22,136,590.

In 1856, the rate was in continual variation between 4½ and 8 per cent.; the largest amounts being £17,650,123 at 6 per cent.; £1,523,362 at 6½ per cent., and £2,466,667 at 7 per cent.; the total discounts being £30,924,699.

In the years 1857 and 1858, between October 1 and February 11, the Bank-rate of discount underwent eleven great changes, namely; from 5½ per cent. on the 1st of October, to 6, 7, and 8 per cent. on the 22nd of October; and from 9 per cent. on the 5th of November to 10 per cent. on the 9th of November; and from 8 per cent. on the 24th of December to 6, 5, 4, 3½, and 3 per cent. on the 11th February.

On the 7th November, 1860, the Bank of England raised its rate of discount from 4 to 4½ per cent.

On the 14th November, 1860, the Bank raised

its rate of discount from 4½ to 5 per cent., in consequence of £300,000 in gold withdrawn on account of the Bank of France.

On the 15th November, 1860, the Bank raised its rate of discount from 5 to 6 per cent., in consequence of a further withdrawal of £335,000 in gold for the Bank of France, another withdrawal of £365,000 in gold being expected to follow.

Thus, by three separate advances in the space of a week, the Bank-rate of discount was increased 50 per cent. on the previous rate of discount.

This serious aggression against our trade was made simply by the withdrawal from the Bank of England by the Bank of France of £1,000,000 in gold, through the London bullion dealers, who drew upon their deposits in the Bank of England.

On that occasion the Bank of France raised its rate of discount from 3½ to 4½ per cent.

From this it seems that, however secure England may be against military or naval armaments, English Commerce may be at any time successfully invaded by France; and the Bank of France, whatever may have been its original constitution, is at present under the complete control of the French Emperor, so far as commanding its money and resources.

Thus, we are liable any day, at the will of the

Emperor of the French, to lose all control not only over our loanable capital, but also over our circulating medium, or money.

These fluctuations may be taken as samples for subsequent years, though the last year (1864) has shown fewer fluctuations, these being confined chiefly between 7 and 9 per cent., and the Bank-rate of discount for the average of the year exceeding 7 per cent.

These are strong facts, and go a long way to prove the necessity of some change for correcting the evil influence of the Bank of England over the whole money operations of the kingdom; and seem to give some force to the observation of Lord Ashburton,—"That if these fluctuations were inseparable from the circulation of paper, we pay too dear for the accommodation, great and useful as it is."

As a paper currency is for *convenience* and *economy*, it is essential that we should not overestimate the advantages; but that we should keep in view these disadvantages, which inflict such extensive ruin, and are so seriously injurious to the commerce of the country.

The gain to the Bank of England from these fluctuations is more easily calculated than is the loss to the country; for the loss is not only in the reduced value of stocks from forced sales, but

also in the diminished production of the country, from want of the means for paying the wages of labor, and in the diminished demand; not that the capital of the country is so much diminished, as that it is so little increased; not that the produce of the labor is lost, but that it has depreciated in value from the want of money, as the means of transfer, and has gone into the hands of the great capitalists at prices so reduced as to leave little or no profit to the producers, and has thus withdrawn capital from trade, thereby diminishing the labor fund, the capital so withdrawn being otherwise invested, and at a time when it was most wanted for the trade and industry of the country.

It is true that, the loss of one is the gain of another, but it is not true that the gain is always equal to the loss, and least of all is it true when the loss is spread over the community, as it is on these occasions.

The gains of the capitalists, always ready with money in hand to seize their opportunities, are not always invested for the benefit of trade, but are often invested in the Government funds, or other permanent and safe securities, ready for like occasions and opportunities, and the time may be long or short before the capital so withdrawn is allowed to return, if ever, into the channels of

trade. In the meantime the trade and industry of the country suffer, and there is no National Bank to which distressed, though perfectly solvent, traders can resort, when relief is most wanted.

On these occasions the Bank of England takes its own large share of the profits of that distress which itself has caused, but which it is neither capable of relieving, nor anxious to relieve.

In this respect the practice of the Bank of France is preferable to that of the Bank of England. The Bank of France meets the demands upon it by obtaining a supply of specie. The Bank of France admits that, as it profits by the issue of notes and banking, it ought to bear the expenses incidental thereto. To provide a supply of gold or notes to meet the requirements of its customers is regarded by the Bank of France as a duty devolving on itself, even though it involve a loss to the Bank. The Bank of England makes no such admission, but takes the opposite course. It takes no step to obtain specie, but, by raising the rate of discount, deters its customers from demanding gold or notes, and thereby throws the loss upon its customers.

It is manifest that the effect of this practice of the Bank of England is, to inflict serious injury upon the country. This fact does not of itself justify a condemnation of the system, if these

losses be shown to be unavoidable. But even the practice of the Bank of France shows that, to a great extent, these losses upon the country are avoidable.

By augmenting the losses in trade by depression of prices, the high rate of discount, by diminishing profits, diminishes the trade of the country and the means for employment of the working-classes. An unusually long period of a high rate of discount is always followed by a period of mercantile depression. Manufacturers, merchants, and traders, strained and often exhausted in their resources by the exactions of the Bank of England, contract their business and liabilities, and discharge many of their hands. With diminished trade there are fewer bills to be discounted, and the Bank rate of discount lowers.

Thus, the evil works its own remedy, but at the cost of the community, and to the questionable profit of the Bank, for, by the depression of trade, the rate of discount is reduced, and often for a long time kept down, below its ordinary level.

Since the passing of the Bank Act in 1844, the *minimum* Bank rate of discount has varied from 2 up to 12 per cent. For a century and a half previously to 1844, with the exception of a few months in 1839, in anticipation of a coming

change, the Bank rate of discount never varied more than 1 per cent., or from 4 to 5 per cent. For upwards of a century and a quarter, it was the invariable rule of the Bank of England to discount all commercial bills at 4 or 5 per cent. During that long period, this country went through more severe trials than it has ever undergone since, and yet, during the last twenty years, the Bank rate of discount has changed, on the average, every two or three months, sometimes every two or three weeks, ranging from 2 to 10 and even 12 per cent., thus making the trader yield up the profits of his trade to the capitalist; so true it is that the more we increase the value of money, the more we depress trade and the whole property of the kingdom.

The late Mr. Bonamy Dobree, Director of the Bank of England, has left on record his opinion of the effect of these fluctuations in the Bank rate of discount as follows:—"These violent and sudden ebbs and flows, of which there have been various recurrences during the past twelve years, evidenced, in my opinion, by forty variations in the rates of discount, from 2 per cent. the lowest, to 8 per cent. the highest; whilst in the previous ten years there were but two changes, between 2½ per cent. the lowest, and 6 per cent. the highest, could not, I think, have been foreseen by

the promoters of the Act of 1844, a measure which has acted very prejudicially upon the trading community, for whose particular benefit and safeguard the Act would seem to have been specially framed."

This is a very strong expression of opinion, and is entitled to much attention, coming from one who had been for many years a Director, and who had filled the important office of Governor of the Bank of England.

This opinion is quoted by Mr. Lawson, in his small work, recently published, on the Bank of England;* and he adds some striking facts to show that these repeated changes in the Bank rate of discount are by no means favourable to the proprietors of Bank Stock. For example, he says:—"The rate of interest charged by the Bank for 140 years never varied from 5 per cent., except on one or two occasions, yet we find the Bank made larger profits when the rate of discount never rose beyond 5 per cent. than she has ever done since it varied from 5 to 10 per cent.; for instance, in 1799, the stockholders, in addition to a dividend of 7 per cent. per annum, received a bonus of £1,164,240, being 10 per cent. on the then capital of £11,642,000. In May, 1801,

* "The Bank of England, As It Is, and As It Ought To Be." Page 27.

another bonus of £582,120, being 5 per cent. on the capital; in November, 1802, £291,060, being 2½ per cent.; in October, 1804, £582,120, being 5 per cent. on the capital stock. In that year the salaries of the Directors were increased. In October, 1805, a bonus of £582,120, being 5 per cent.; in October, 1806, another 5 per cent.; and in June, 1816, a bonus of £2,910,600, being 25 per cent. on the capital of £11,642,400; this latter bonus was added to the stock, which then amounted to £14,553,000, its present capital. Previous to 1807, when the legal interest was 5 per cent., the annual dividend on bank stock was 7 per cent. It was in that year increased to 10 per cent., and continued at that rate till the year 1822; from the latter year to that of 1838 it was 8 per cent., and from that date to 1852 it was 7 per cent.; it is now 11 per cent. If, therefore, we add the additional 3 per cent. received during the 16 years, amounting to £5,588,352, and the interest on the above sum of £2,910,600 from 1816 to 1831, on which the proprietors of Bank stock received 10 per cent. for six years, and 8 per cent. for nine years, say, £3,987,522, it will be found that the stock-holders received in the shape of bonuses and additional dividends, during a period of thirty-four years, the enormous sum of £16,270,254, whilst their original capital

of £14,553,000 remained undisturbed. It is a rare thing in the present day, for the Bank to declare a bonus; such an event has not occurred for many years."

In the face of these facts, the greatest commercial country in the world, and, at least, equal in intelligence to any other country, has submitted through all these years, and submitted almost in silence, to an infliction by law amounting, absolutely, to a national calamity. But, it is said, this is a question too profound for the People. It is understood only by the Bankers and other great Capitalists—practical men—and they do not complain. The Act was framed by the most experienced banker and the greatest capitalist in the greatest commercial city in the world. Moreover, for this great public service, and being so great a capitalist, he was raised to the dignity of the peerage, and he is now a member of the Upper House of the British Legislature, and, by almost universal acknowledgement, the highest authority in the country on all commercial questions. With this noble Lord, of such great wealth and commercial experience, no member of any Government could venture to differ on any commercial question, much less on a question about the Bank Act, which he, the greatest Capitalist and most experienced Banker, himself prepared. He gave

his evidence, in 1857, as an authority not to be disputed, before the Committee of the House of Commons, appointed to inquire into the beneficial effects of this very Bank Act.

He was then a member of the Upper House. Nobody dared to dispute with such an authority. The few members of the Committee who on that occasion ventured to put a few simple questions to the authority seemed half ashamed of their own audacity, and, sometimes, the authority seemed more than half provoked; but, then, some of the questions were rather silly, and a member of the Upper House might be excused for telling members of the Lower House that, he did not come there to instruct them in the elements of political economy, by entering into definitions of *capital* and *currency*. But either the *snubbing* system had the effect of stopping questions, or nobody on the Committee knew how to put the questions which ought to have been put to this Witness. Nor did any other Witness seem able to expose, by his evidence, the manifest fallacies in the evidence of this Witness.

But, these remarks are by no means intended in disparagement of the Banker-Peer, for whom the Writer entertains high respect; yet, they are intended reproachfully to the Government, especially to the present Chancellor of the Exchequer,

from whom better service than he has rendered might have been expected on this question.

That Mr. Gladstone, as Chancellor of the Exchequer, should at this time have brought into Parliament a Bill to prolong, for fifteen years, the evils of a spurious bank-note circulation, is a step which leaves little ground to hope that he will ever be prevailed on to make any material change in the present Bank Act.

It is, therefore, the more important that the People of this country should be made to understand that, the present question of the Bank of England and the Organisation of Credit in England, is one of paramount importance, as affecting the prosperity of the trade and industry of the country.

All our trade is carried on by means of bills of exchange, and nearly all the holders are obliged to get their bills discounted to enable them to carry on their ordinary course of business, and the ordinary business of banking consists in discounting commercial bills, or purchasing the current debts of commerce.

A manufacturer supplies a merchant with a thousand pounds worth of goods, and receives from him, or draws on him, a bill for the same amount at three or six months, or such other time as may be agreed, to enable him to sell the goods

so purchased, the merchant's capital being all, or nearly all, invested in his business. The manufacturer also has all his capital invested in his business, and not being able to wait till the three or six months have expired, he takes the bill to his banker, or bill-broker, and gets it cashed, receiving the £1000, *less* the interest for the two or three months, or other time, at the current market rate.

All commerce is carried on in this way, and thus a great economy of capital is effected.

What, then, is to become of the merchant, if money be so scarce that he has been unable to sell his goods at the ordinary market price, when his bill has become due?

He must pay; or he may be declared a bankrupt, and bankruptcy has made many a solvent merchant an insolvent debter. The better course than *that*, is to sell his goods for what he can get; and, instead of making a profit, to put up with a loss.

Here the capitalist comes in and buys for £5000 what has cost the merchant £10,000.

The capitalist keeps the goods until he can realise his £5000 and a large profit, and then he invests the produce in the Government Funds, or Foreign Securities, or in the purchase of a house or land.

In these transactions there is no loss of capital to the country; but the country suffers the loss of the first unsuccessful speculation, and also the further loss of so much capital withdrawn from trade.

These losses, multiplied through the country in the time of a money-panic, may, in their effects, produce an aggregate loss to the country, greater in amount than the whole of the capital so unsuccessfully employed.

If the calculations may be relied upon, such were the effects of the money-panic in the year, 1847.

If those effects might have been prevented, as undoubtedly they might have been, if the Bank of England had been constituted with strength sufficient to resist the tide, which then swept away and overwhelmed so many engaged in trade in this country, and so nearly overwhelmed the Bank of England itself, this becomes a question second to none,—how to prevent the recurrence of such disastrous consequences.

It is no satisfactory answer to say that, such consequences were the unavoidable effects of a natural law, even if that be the true answer.

It may have been so, and yet that was a natural law acting on incongruous and incompatible human arrangements; and although we

cannot alter the course of a natural law, yet, for many purposes, we can and do so frame our artificial arrangements as to adapt them to the natural law for our service, instead of injury.

It is the certainty of continuous and uniform action which constitutes the incomparable power of every natural law, and no one can ever wish that it were changeable.

The human art consists in adapting our artificial contrivances to the natural laws for accomplishing the desired ends; as watchmakers combine brass and steel in the compensation balance, to counteract the natural contraction and expansion of the metals, for regulating the artificial movement of the works.

That we can do so to a certain extent we have already learnt from experience in our credit-issues; but, not content with this, we have tried to make paper answer *all* the purposes of gold, and in this we shall never succeed, until we can convert the material paper itself into gold.

It will be asked—What is commerce to do when the Bank of England refuses to discount?

The answer is—Commerce must pay the penalty of high discount to those Banks which trade in discounts.

The Bank of England, as a National Institution for the benefit of the country, ought

to be constituted and conducted only for that object.

For this purpose, the superior control over the money of the country must be vested in the Bank of England, and that control, to make it efficient, must be in conformity with the natural law, for regulating the supply of money, either by increasing the quantity when insufficient, or reducing it when in excess; on the one hand, to encourage trade and industry at home, and on the other to discourage investments abroad, by making investments at home more safe, and in the end more profitable, and investments abroad less safe and less profitable.

It is as true of gold as of all other commodities, that it will, by the natural law, go to the best market, and our paper-money, as long as it represents gold, must always follow the gold, so that when gold becomes scarce, paper-money also must become scarce.

To alter this course of the natural law by means which are operated upon in the same direction, must always be an impossibility, and, if possible, nothing could be more fatal in the consequences.

But when, against this natural law operating in one direction, another law is brought to bear in an opposite direction, the one neutralises the other.

Thus, if the Bank of England be withdrawn from the influence of the natural law, which would drain the Bank of all its gold and stop the further issue of notes, by being brought under the influence of another law acting in a contrary direction, the one law, counteracting or neutralising the other, the drain of gold will cease. The bank notes will return with the gold, and the home demand, being more permanent and therefore more profitable than the foreign demand, as it must always be, will, under these circumstances, by force of the natural law, always prevail. Such must always be the result of this antagonism, if the power employed be sufficient to overcome, or, rather, to counteract and neutralise for a time, the tendency of the natural law.

The Bank of England, in possession of this power and free to exercise it as the occasion required, would then be in a position to compete successfully with any combination of capitals which could, practically, be brought to bear against it, for no such combination could long resist the commanding power of the Bank of England over the bank-notes, and the market for gold; thus throwing the whole burden and responsibility of supplying the demand for money upon the other banks, and at the same time cutting off their resources by refusing to discount at all.

In this state of things, the Capitalists, by force of the natural law of self-preservation, would be the first to look after their own affairs at home, and no temptation from abroad would be a sufficient inducement to them to continue to send out gold from this country, when the price here was rising to the level of the foreign country.

By this means the equilibrium between the value of the British Currency with that of other countries would be restored, and the cause of disturbance would be removed.

The Bank of England, instead of competing in discounts with other banks, would withdraw from the competition when the rate exceeded 4 per cent., and instead of co-operating with other banks to keep up the rate of discount, would operate to counteract them, by arresting the efflux and hastening the influx of gold.

Whatever may be the evil of withdrawing the Bank of England from discounting when the rate of discount exceeds 4 per cent.,—and that is a question of degree which can be determined only by experience,—still it is clear that it must be much less than when the Bank of England co-operated with the other banks to maintain the higher rate with all its consequences.

On all occasions of money-panic, the chief cause is not so much the want of money as the want of credit. In ordinary times, when credit

is good, the merchant can afford to wait a little before he gets his bills discounted, for then he is not so much pressed for payment. But, in times of monetary or commercial crisis he cannot wait.

This pressure, operating more or less on all engaged in trade, causes a great rush on the banks for discounts.

But the banks also have to look to their own safety, and as money becomes more scarce in proportion to the scarcity of gold, they lessen their liabilities by curtailing their discounts by prohibitory prices.

If the banks have been relying on deposits, and the deposits are being withdrawn, as may then be expected, a run upon those banks follows, and to many often ends in ruin.

When the commercial public find the rate of discount too high, or that it is difficult or impossible to get their bills discounted, they take up every shilling of their deposits; or, if they have no deposits, they sell their goods at any price, and, taking to the bank the cheque they receive in payment, they withdraw the amount in cash. In one way or another they collect all the money they can. The general public, when they begin to feel the pressure, partake of the alarm and join in the run on the banks, and the banks, in their anxiety, join in the rush, and

scramble among themselves for the possession of the small stock of gold, by getting bank-notes and converting them into gold. Then comes the panic, and the crash of falling houses, with general distrust and total suspension of credit.

These results are commonly attributed to over-issues, over-trading, or over-speculation. But neither facts nor reasoning support any of these conclusions.

The issue of bank-notes for several years preceding the years 1847 and 1857, the years of the two great money panics, did not exceed the ordinary amount of issues, and in the years, 1847 and 1857, the issues were considerably under the ordinary amount. But in these two years the gold in the Bank of England very considerably diminished. The gold had been drawn off by foreign remittances, and the bank-notes had been reduced in such a proportion as to produce a sensible scarcity and a general alarm, which instigated precautionary measures. Bankers, merchants, manufacturers, and traders in general, began to look to themselves and to their reserves for the time of need. Bank-notes and sovereigns were hoarded in all the private chests and tills throughout the country. Deposits were drawn out, and Debts were called in. Money at any price was hardly to be had. The Banks

which had relied on their deposits were ruined. The Bank of England, which had relied on its banking-reserve and deposits for its discount fund, was suddenly reduced to the necessity of looking after its own notes and gold. Utterly without capital, and in its banking department almost without notes and gold, and absolutely without the means of getting either, the Bank of England was helpless for others and itself. Based upon credit, the foundation is gone when credit is gone. The useless gold locked up in the Issue Department remains, but the Banking Department is empty. With £7,000,000 of gold in its possession, the Bank must stop, just as if it had no gold at all; and this is just what the Act intended. As a banking reserve these £7,000,000 were never intended, though for this purpose most wanted. The stock of gold kept by the Bank under the Act of 1819, did not exceed the average of £8,000,000; and here are £7,000,000 of gold completely nullified,—just as much as if actually built up in brick and mortar.

During the months of December, 1864, and January, 1865, the amount of bullion in the Bank of France averaged exactly £7,000,000. At that time, the Bank of France, with equal liabilities to those of the Bank of England, had

only half as much bullion; yet the rate of discount of the Bank of France was then only 7 per cent., when the rate of the Bank of England was 9 per cent., and more confidence then prevailed in the Bank of France than in the Bank of England. If the Bank of England had then been in the condition of the Bank of France, in liabilities and amount of bullion, the condition of this country would have been that of bankruptcy from one end to the other, and many thousands of our working-classes would have been thrown out of employment. Something very like that was the condition of this country in 1847 and 1857. And yet, in December and January last, confidence was unshaken in the Bank of France, and the distrust which then prevailed on the continent was in the Bank of England only.

The issue of 2½ millions in the form of Exchequer bills, bearing interest at 5 per cent., sufficed to stop the panic in 1793. An issue of two millions of *inconvertible* notes stopped the panic in 1797. An old bundle of £1 notes stopped the panic of 1826. The suspension of the Bank Act sufficed to stop the panics of 1847 and 1857,—although, even in the last and more severe of these crises, the additional issue of Bank of England notes amounted only to £928,000, and the exorbitant rate of 10 per

cent. was exacted as the *minimum* of the Bank's advances.

But the Government, that takes upon itself to suspend the Act must obtain from the Legislature an Act of indemnity for such an arbitrary violation of the law, and for this purpose must summon Parliament, if not then assembled.

If the repeal of this leading provision of the Bank Act be a matter of course,—and it can hardly be otherwise when the circumstances of the case render it absolutely necessary,—there seems to be no good reason why this provision should not be altogether abolished.

But, to make a law which, it is known, must yield to a certain degree of pressure, is a great practical injustice to those for whom the relief comes too late. To them this is an intolerable hardship and a gross injustice, quite inconsistent with the British Constitution.

The Bank of England, therefore, as a national resource in the time of need, has failed, and if there had been no gold in the Bank the failure would not have been worse; for, in that case every creditor would have been paid in full.

As a National Bank, it fails when it is unable to fulfil what ought to be its only function,—the maintenance of the financial credit of the country; and, as such, the Bank of England, as long as it rests solely on credit, always must be shaken

to its foundation when credit is withdrawn. As long as the Bank of England is without any independent and real capital, and is allowed to speculate with its deposits, it must be in the power of its depositors, and its fictitious strength must fail when credit fails and deposits diminish or disappear.

This is one of the fatal errors of the present constitution of the Bank of England, and this is one of the most active causes of aggravation to the mischief of those periodical panics to which this country is subject, and must always be subject, as long as the Bank of England continues to be so constituted, instead of being constituted, as it might so easily be, for the organisation and maintenance of the credit of the country.

Private and Joint-Stock Banks, however convenient for the community, exist for themselves, but the Bank of England ought to exist solely for the community.

Private and Joint-Stock Banks properly avail themselves of opportunities for their own good, without any regard to the good of the community. It is well for the community when those banks are stopped in their course. The run for deposits, which arises in such circumstances, is a natural consequence of the banks curtailing their discounts, and is also a natural means of retalia-

tion against the banks. The depositors say to the bankers:—"As you will not lend us your money, or give us money for our bills, give us back our own money,—give us our deposits." This the banks are sometimes unable to do, and then they stop payment; whereas, if they had discounted freely the deposits might have remained with them undisturbed, and the crisis might have passed away with little more than temporary inconvenience.

The Bank of England, as the National Bank, ought to exist only for the good of the community; but the good of the community seems to be the last thing thought of by the Bank Directory, nor is this their fault. Recollecting their failures in 1847 and 1857, they are now resolved to "save themselves," at whatever sacrifice to the commercial community.

Mr. Hodgson, M.P., Governor of the Bank, at the quarterly meeting of the Proprietors, on the 22nd September, 1864, said:—"The rate of discount is charged for one purpose only—the purpose of keeping the reserve fund at a proper and safe limit." But what the Bank Court regards as a "proper and safe limit" for the reserve fund was not stated. The *minimum* bank-rate of discount was then 9 per cent., and they had then in the Bank thirteen and a quarter mil-

lions of gold. If this be the notion of the Bank Court of a "proper and safe limit," it were better to say so in plain terms. The country, it is to be hoped, will never confirm this notion.

In the case of the recent bank failure at Birmingham, it is perfectly clear that, if the bank had kept its secret of insolvency, and could have exercised a power of issue of its notes to the amount of the half, or even the third or the fourth of the deposits, the credit of that bank would have stood unshaken, and in the course of time, under prudent management, might have become solvent. But no further instance than this can be required to show the necessity for confining the issue of notes to the Bank of England.

If properly constituted, the Bank of England would be able to support credit for the benefit of the community, instead of being obliged, as it now is, for its own preservation, though at the same time, for its own profit, to operate against credit, to the loss of the community, thus co-operating with the other banks for high interest and large profits, by following their example, in using the deposits as if these were part of the real capital of the Bank, and thereby aggravating the evil, instead of providing the remedy.

To curtail discounts by a high rate in a time of monetary panic must aggravate the evil; but in

the present powerless and otherwise helpless state of the Bank of England, there is no other alternative than the high rate of discount, or the stoppage of the Bank.

With ample capital for counteracting the course of the crisis, there would be no occasion for the remedy, because the evil would be averted.

The ordinary rate of discount, unless under very rare and exceptional circumstances, might be maintained.

When those circumstances occur, it will be better to bear the evil of high discounts for a short time, than to aggravate the evil by protracting its duration.

But, in ordinary circumstances, the scarcity of money would arise from the efflux of gold, and this would be speedily counteracted by the commanding power of the Bank of England in the open market of gold.

The equilibrium in the value of British and Foreign Currency thus restored, the gold would return, and the scarcity of money would cease.

During the temporary scarcity, the Bank-rate of interest might be maintained at 4 per cent., and thus the crisis would be averted.

Any loss to the Bank of England on these occasions must be inconsiderable, in comparison with the loss saved to the trade and industry of the country.

The universal confidence in the power of the Bank of England would, of itself, operate like a charm throughout the country to bring relief by maintaining credit; as, on all like occasions, from 1793 to 1857, relief has always come with the restoration of credit, by confidence in the Government, when brought to the aid of the Bank in its distress. The relief was, in reality, in the credit restored by confidence, and confidence was always restored by increasing the issue of notes and discounting freely; but never by contracting the issue of notes, and raising the rate of discount. But the credit of the Bank of England should be dependent on its own resources, not on the resources of the Government.

The history of all the monetary panics teaches the same lesson of dearly bought experience; that enlarging the amount of discounts and bank-notes is the most prompt and effectual remedy; not that the bank-notes are so much wanted, as confidence that they are to be obtained when wanted.

In that momentous crisis of October, 1847, the Bank Directors told the Chancellor of the Exchequer that, "they could save themselves, but that they could not do so without pressing more stringently on the commercial world."

As truly observed by Mr. Patterson, in his

useful work on "The Economy of Capital," * already frequently referred to, this crisis was in a great degree artificial, and was immensely aggravated by the restrictive policy imposed upon the Bank; and the better to show this he gives the following extracts from the speech of the Chancellor of the Exchequer (Sir Charles Wood) on the subject.

"Evidence was laid before the Government, which proved not only the existence of severe pressure, but also that it was aggravated in a very great degree by the hoarding of gold and bank-notes to a very large extent, in consequence of which an amount of circulation, which under ordinary circumstances would have been adequate, became insufficient for the wants of the community. . . . Parties of every description made application to us, with the observation, 'We do not want notes, but give us confidence.' They said, 'We have notes enough, but we have not confidence to use them: say, you will stand by us, and *we shall have all that we want*: do anything, in short, that will give us confidence.' *If we think that we can get bank-notes, we shall not want them.*' . . . Parties said to me; 'Let us have notes—charge 10, 12 per cent. for them—we don't care what the rate of interest is.

* "The Economy of Capital," page 104.

We don't mean, indeed, to take the notes, because we shall not want them; only *tell us that we can get them*, and this will at once restore confidence.' . . . As soon as the letter of the 25th October appeared, and the panic ceased, thousands and tens of thousands of pounds were taken from the hoards; some from boxes deposited with bankers, although the parties would not leave the notes in their bankers' hands. Large parcels of notes were returned to the Bank of England cut into halves, as they had been sent down into the country. And so small was the real demand for an additional quantity of notes, that the whole amount taken from the Bank when the unlimited power of issue was given, was under £400,000. The restoration of confidence released notes from their hoards, and no more was wanted—for the trifling quantity of additional notes is hardly worth notice."

Mr. Patterson remarks: "Here, again, we see that the sufficiency of the Bank's notes was never questioned;—that the crisis was mainly due to the hoarding of notes and gold by the public, owing to the break-down of credit and confidence;—that the restrictive policy of the Bank of England was the chief cause of this collapse of credit, aggravating a season of commercial difficulty into one of most destructive.

panic;—and finally that, immediately after the reversal of that policy, the panic and hoarding were at an end, and confidence returned."

If it be true, "that the restrictive policy of the Bank of England was the chief cause of the collapse of credit" on that as on all like occasions, it does not seem to be quite consistent with this, "that the crisis was mainly due to the hoarding of notes and gold by the public, owing to the break-down of credit and confidence."

If it be true, "that the sufficiency of the Bank's notes was never questioned," why were the notes and gold hoarded by the public?

The true answer is, that a scarcity of Bank notes was foreseen as an inevitable consequence of the withdrawal of gold from the Bank, and through the insufficiency of the notes, a loss of credit from a want of confidence in the power of the Bank to bring back the gold and to supply the demand for notes.

The hoarding, as a precautionary measure on the part of the commercial community, no doubt, aggravated the mischief; but that was a consequence, and the cause was "the collapse of credit by the restrictive policy of the Bank of England;" or the insufficiency of the notes; but that restrictive policy was essential for the safety of the Bank itself. This the Bank Directors admitted when

they told the Chancellor of the Exchequer that, "they could save themselves, but that they could *not* do so without pressing more stringently on the commercial world."

On the 25th of October, 1847, the total amount of bullion in the Bank of England was, £7,865,445, the lowest amount at any time since the year 1844.

The Bank of England, being without any real capital, could not restore the usual stock of gold, without diminishing the usual supply of notes, unless by curtailing its discounts, and, this being manifest, loss of confidence in the Bank, and loss of credit in the community, were the necessary consequences.

Under these circumstances, if the Bank had sold Government Securities only, the consequences must have been still more disastrous.

But, if the Bank of England had then been in possession of its own real capital, the sale of Government Securities by the Bank for the purchase of gold, and at the same time free discounting by the Bank at 4 per cent., would have confirmed confidence in the Bank, and thereby would have preserved credit. There would have been no hoarding, because there would have been no distrust, and the facts are the best evidence that there would have been no extraordinary de-

mand for notes or discounts. There would have been no panic. There would have been no loss to the country, and the loss to the Bank of England could not have been great; but, great or small, that is another, and, comparatively immaterial question. The object of the Bank of England would have been accomplished,—the purpose of its foundation would have been fulfilled.

But severe as was the crisis of 1847, it was surpassed in severity by that which followed ten years afterwards. In the year 1857, the convulsion of the American crisis was felt in this country, and, before the end of October, shook the Bank of England to its foundation.

The universal suspension of cash payments throughout the United States put so severe a strain upon the great mercantile firms in England, engaged in the American trade, that, the question with many of them was, whether to risk their existence by waiting for the money due to them from the American firms, or to realise at the sacrifice of half or other large portion of the whole.

It was well known that the embarrassment in America was occasioned by the break-down of credit, through the great depreciation of railway and other securities in the United States, and the consequent suspension of nearly all the Banks.

The effect of these suspensions fell most heavily upon those engaged in trade with the United States, and their transactions were immense. But most of these American firms, which had suspended payment, were perfectly solvent, and it was known that they would be able to resume business as soon as the effects of the panic had subsided.

The embarrassment of our trade, therefore, was only temporary, being only until the monetary equilibrium should be restored by the usual remittances from America to this country.

If the Bank of England could have helped our mercantile interests to tide over that period of difficulty, the convulsion in America, though it must have been felt in this country, would not have come like a wave across the Atlantic to overwhelm so many of our merchants and traders in one common ruin, bringing into peril even our strongest firms.

But the Bank of England was powerless, and if the cast-iron machinery of the Bank Act had not been relaxed the whole must have come to a *dead stop*.

The Bank of England could have helped our mercantile interests to tide over that difficulty if it could have helped them to bank-notes until the monetary equilibrium should be restored by the

usual remittances from America to this country. That course was adopted by the Bank of England *after* the Bank Act was suspended, but, as long as that Act remained in force, such a course was impracticable. The Bank of England then, for any practical purpose, had no notes and no means of obtaining any. Then, as on former occasions, the best Government securities could not to any extent be converted into money, and other stock, of course, was then still more unsaleable. Those who were then so fortunate as to hold money, would not part with it on any terms, nor for any security. The prevailing distrust, by invalidating the ordinary forms of commercial credit, had rendered a greater supply of money absolutely indispensable for carrying on the ordinary business of the country, but, yet, by no means could any money be got at.

On Wednesday, the 11th of November, 1857, the Bank of England, for all the practical purposes of the country, *had stopped*. In the afternoon of the following day, Thursday, the Bank was again set a-going by the suspension of the Act. But for that relief the stoppage of the Bank of England must have been complete, and the stoppage of all other Banks in the kingdom must have followed. That relief was instantaneous and effectual all over the country, because it restored credit, which was all that was wanted.

It was not sovereigns or bank-notes that were really wanted, but faith in the fact that bank-notes could be had when wanted.

Nothing can be more clearly manifest than that there would have been no crisis in 1857, if the Bank of England could have supplied bank-notes freely, instead of contracting them. If the Bank could have supplied them at 4 per cent., the demand would have been comparatively trifling. If it had been known that there was a large reserve of notes in the Bank, the large and strong firms, with the knowledge of that fact, and of the temporary nature of the difficulty, would have accommodated each other and their dependents by mutual forbearance, rather than pay even 4 per cent. for discounting their bills. But the case was quite different when the National Bank was known to be without any available money, and without the means of getting any. Depositors in the Bank to an amount, in the aggregate, of about twenty millions, might well be alarmed at such a state of things, the end of which no one could foresee. The holder of a £5 note might then be excused for running to the Bank to exchange his bit of paper for five golden sovereigns. But he would not take that trouble if he knew there were plenty of notes in the Bank to meet all demands. He has no want of confidence in the

note. His want of confidence is in the Bank to meet the demand for notes, and, therefore, he wishes to be independent of the Bank.

It is not surprising if the depositor of Twenty Thousand Pounds feel that want of confidence in an exaggerated degree, and take measures calculated to extend his distrust to others. Distrust generally arises very suddenly, and spreads very rapidly.

The crisis of 1857 was the more disastrous because it was unexpected. The commercial community were wholly unprepared for it. Bankers and Merchants, of immense wealth and known solvency, were suddenly overwhelmed and stopped by the want of immediate relief, which none could afford to give.

The amount required to meet the liabilities was very great, but the amount required for the temporary relief was, comparatively, very small, and what was most required was the credit which confidence alone can give.

But these were just the wants which the Bank of England could not supply, and the ruin which followed was a stupendous loss to the country.

The Scotch banks joined with the English banks in their run upon the Bank of England for notes, and then exchanged them at the Bank for gold. The Bank of England, as before shown,

had raised its rate of discount rapidly from 5 to 10 per cent., and, having given all the accommodation which, under the Act, could be given, was utterly inadequate to any further help. The more tight the money-market became, the faster were notes and gold withdrawn from the Bank. Every bank and firm sold its securities, and kept the notes and gold thus obtained. The English, Irish, and Scotch Banks all took the same precautions, and altogether the Banks kept by them about three millions of specie more than their ordinary amount.

The effects of this disastrous state of affairs were first felt in London, Liverpool, and Glasgow, and the panic commenced with the failure of the Borough Bank of Liverpool, quickly followed by the suspension of the great commercial house of Dennistoun and Co., whose outstanding acceptances amounted to about £2,000,000, all of which were subsequently paid, and the house resumed business. Shortly afterwards, in the same month of November, failed the three great northern Banks,—the Western Bank of Scotland, the City of Glasgow Bank, and the Northumberland and Durham Bank.

The effects of these great failures were felt like the successive shocks of an earthquake in the City of London, where the resources of the discount houses and bill-brokers were dried up, and

discounts were obtained at the Bank of England with the greatest difficulty at 10 per cent.

The great discount house of Saunderson and Co. was obliged to suspend with liabilities exceeding £5,000,000. The great American firm of Peabody and Co. was also known to be on the point of suspending, though perfectly solvent, but, like so many other firms, kept out of their money, were unable to meet their engagements. It was of the utmost importance to support this firm, as its fall would bring down many other firms, and create a general panic in London. But the help required was to the extent of £800,000, sterling, and the Act prevented the Bank of England from advancing this sum. No sooner was the Act suspended and the Bank unfettered than it advanced the required sum to Peabody and Co., and to many other firms, as also to some of the English banks. The beneficial effect produced by the suspension of the Act, and the resolution of the Bank of England to extend its issues, was instantaneous.*

In four days after the suspension of the Act and the resolution of the Bank of England to extend its issues, the panic had ceased throughout the kingdom, though the effects of the public calamity remained long afterwards.

But for the suspension of the Act, which en-

* "Economy of Capital," page 109.

larged the power of the Bank of England and the other Banks, the trade of the whole country would have been suspended by a state of affairs approaching nearly to universal bankruptcy.

Many of the great firms, after sustaining enormous losses, paid in full, and resumed business. A large number of the other suspended firms proved to be in like manner perfectly solvent, and would, of course, have been saved if the relief had come in time.

A list of the great and wealthy firms, which suspended under that extraordinary pressure, and afterwards paid 20s. in the pound, with a large surplus, would be much too long for insertion here, nor would it be of any further use here than for showing what is so well exemplified in the child's trick, of the pack of cards so arranged as that the fall of one card brings down the whole pack. Thus, Messrs. Fernie Brothers and Co., whose suspension helped to bring down the Liverpool Borough Bank, were perfectly solvent, and paid all their liabilities, with 5 per cent. interest, amounting in all to £420,517. But solvency did not save them in the general loss of credit, and as they were thrown down by the fall of others, so others were thrown down by their fall, and amongst these, the Liverpool Borough Bank, which spread ruin through Liverpool, and that spread the ruin through every

great commercial City of the kingdom. The magnitude and extent of the bankruptcies, and the bankruptcy expenses which swallowed up more than one-third of the assets, compose an item of charge against the Bank Act of such enormous amount that it ought never to be forgotten or forgiven by this country.

There is, to an unconcerned spectator, something whimsical in the fact that, the question of bankruptcy to solvent firms should be dependent on a change in the law of the land between half-past 2 o'clock and half past 3 o'clock on the same day, for that was the simple fact which saved the firm of Peabody and Co.; or, if not a change in the law, a suspension of the law, and that by the will of one man in Downing Street. It seems hard upon Saunderson and Co., Dennistoun and Co., Naylor and Co., and the many others in the same category that, the relief should not have come a few hours sooner to save them; and it seems not an unreasonable question to ask, why the fortunes of so many good and well-deserving men should be made dependent on the will of one man, in a country professing to be governed by laws administered equally to all. Here was no over-trading, nor unsuccessful trading, but large and prosperous trading with ample capitals. Here was no indiscretion, no want of ordinary foresight, no want of prudence, but simply

the want of a law applicable to the circumstances. Now, a law to be efficient should be applicable to all the circumstances for which it was intended, and it could never have been intended that a law, affecting all the property in the kingdom, should continue in force only during the pleasure of one man, or set of men called the Queen's Servants.

And yet this law, so often proved to be utterly inefficient for its intended purpose, is still maintained as a wise and good law, and the people are expected to be contented with it, and thankful for it! Verily, the British are a slow and patient and long-suffering people, whatever their rulers may be. And what are they? Emmerson said:—"Chancellors and Boards of Trade, Pitt, Peel, and Robinson, and their Parliaments, and their whole generation adopted false principles, and went to their graves in the belief that they were enriching the country which they were impoverishing. They complimented each other on ruinous expedients. It is rare to find a merchant who knows when a crisis occurs in trade, why prices rise or fall, or who knows the mischief of paper-money. . . . What befals from the violence of financial crises, befals daily in the violence of artificial legislation."

The abundant evidence is conclusive of the

fact that, on this occasion, as on former occasions, the public and private losses, to an amount so great as to be incalculable, are attributable to a deficiency of the circulating medium and to the insufficient capital of the Bank of England, which rendered it quite unequal to these emergencies, thereby paralysing trade, by destroying all confidence and credit in the country.

Experience has proved that capital put out on loan in the issue of bank-notes can never exceed the requirements of the community, for nobody would pay interest for money which he did not want, and no trader would pay for discounting his bill if he did not want the money before the bill became due.

The only object in the issue of bank-notes is to make the circulating medium, or legal tender money, equal to the requirements, thereby to preserve our measure of value from sinking below its true level.

Experience has demonstrated that the cause of all our money-panics is simply the fact of a temporary insufficiency in the amount of money for the requirements of the community, and that when the insufficiency is supplied the crisis is at an end. This has been fully shown by reference to facts now historical, and is exemplified by the commercial calamities of 1847 and 1857. In

every crisis, when the Bank of England has reversed its policy and the principle of the Bank Act, by meeting the requirements of the community, the difficulty has ceased. It has not been found on these occasions that convertibility has been endangered by such temporary increase of issues. But it has been found that such issues of notes actually stop the internal demand for gold.

This fact, as noticed by Mr. Patterson,* was exemplified in a remarkable manner in the American crisis of 1857, when the internal drain was owing to a contraction of discounts and note issues on the part of the banks. At the time of the crisis there was no external drain of gold,—on the contrary, specie was then flowing into the country. The drain of gold was internal only, and was chiefly, if not wholly, occasioned by the mistaken policy of the banks. The suspension of specie payments at New York occurred at a time "when the Exchanges throughout the world gave a profit on the transmission of specie to New York." As the New York Correspondent of the *Times* wrote, (November 2nd, 1857)—"The banks continued to contract, until a very considerable portion of the mercantile community in despair agreed among themselves to withdraw

* "Economy of Capital," page 294.

their deposits in specie if relief were not afforded. The relief was denied, and the withdrawal began. There could, of course, be but one end to this. The moment this game began, a suspension became inevitable."

The cause of the panic, as the *Times*, in its City Article, remarked (November 3rd, 1857), was that, "the banks, in their efforts to save themselves, had contracted their note-circulation far below the requirements of the country for its internal trade." The same journal, referring to the result, observed:—"The entire suspension of specie payments by the New York and Boston Banks is the most satisfactory announcement that could have been looked for. Had the step been taken a fortnight earlier, an immense amount of ruin might have been averted. The banks, after having by their mismanagement brought about the state of affairs which rendered the panic possible, sought to save themselves by the sacrifice of the whole mercantile community; but the public at last have taken the matter into their own hands, and forced them to a stoppage, which will place them in the same condition with their victims, and thus terminate the struggle. Its effect was instantaneous. Every one, it is said, seemed to feel that the ordinary channels of business would forthwith be restored, and from that mo-

ment the progress of recovery would commence. A postscript announces that everything was going on quietly, and that all excitement had passed away. This result was perfectly natural. The inconvertible paper of the banks would now circulate at a value in proportion to the discretion with which it might be issued; and supposing it to be kept within close limits, there is no reason that it should fall much, if at all, below par."*

Now, this is very valuable experience for showing that no *depreciation* of the currency follows from supplying the want of bank-notes when gold leaves the country, or is withdrawn from the bank.

But why should not the Bank of England act on this experience before the disastrous consequences have fallen upon the country and endangered the position of the Bank itself? No notes will go out unless there be a demand for them, and the extra demand fully maintains the value of the extra issue. When no longer wanted they will be returned, and to keep them longer in circulation will be impossible. The notes will always preserve their full value as long as the supply does not exceed the wants of the community. An extra issue of bank-notes, when there is an extra demand for them, only preserves the measure of value unchanged. It simply prevents prices

* *Times*. City Article, October 27, 1857.

from being lowered, and serves to maintain the ordinary value of money, upon which all contracts are made, nor does such an extension of discounts, to meet the requirements of the country, entail any difficulty or hardship on the Bank of England. On the contrary, it is a source of profit to the Bank. Every additional bill discounted is so much additional profit to the Bank.

But a natural expansion of the currency, regulated by the requirements of the community, is now forbidden by the Bank Act. The great extension of banking in these times, with the increased use of cheques and the "clearing-house" system, have happily enabled us to economise our currency, so that the real evil of our currency system is less felt than it otherwise would be, and the cause is less clearly seen. But the consequences are still most disastrous when an exceptional increase of the public requirements takes place, and the crisis occurs. The consequences are even the more disastrous from being unforeseen, and the exceptional increase of monetary requirements is always very sudden, as well as very brief. Yet brief as it is in time, it is fearfully extensive in its disastrous consequences to the country. When, from increase of trade and population 24 millions of Bank of England notes are permanently required for the wants of the community, as they

soon must be, instead of 21 millions as at present, the ordinary rate of discount must be 9 and 10 per cent., rising to 15 and 20 per cent. whenever any little embarrassment occurs. The present state of things will then be no longer endurable. In the mean time our trade is suffering under the oppressive system, and it is endured, not because it is unfelt, but because it is not understood, and the remedy is unknown.

The limit of the excess of paper over bullion was fixed twenty years ago, in accordance with the supposed commercial necessities of the time. If the limit were correctly fixed at that time, the wants of a largely expanded trade and greatly increased population must be subjecting the community to a needless pressure at the present time.

This conclusion is denied by the advocates of the Bank Act, and it is not easy to *prove* that they are wrong in such denial. But the very argument which they use, if it prove anything, proves too much; for it goes to show that the limit of the excess of paper over bullion was fixed too high twenty years ago, and proves still further, that any excess of paper over bullion is unnecessary and inexpedient. Their argument is that, by the working of the Bank Act, whatever additional amount of bullion may at any time be required for an enlarged currency, to meet

the increasing wants of an enlarged population and expanded trade, is brought into the country.

If that be so, it seems to be conclusive in favor of a metallic currency only.

But Mr. Ricardo expressed a contrary opinion when he said that:—"The advantage of a paper circulation, when established on correct principles, is, that this additional quantity can be supplied without occasioning any variation in the value of the whole currency, either as compared with bullion or any other commodity; whereas, with a system of metallic currency, the quantity cannot be so readily supplied."

Our friend, "of Westmeath," refers to this opinion of Mr. Ricardo, but, "after due consideration of the whole of this part of the question comes to the conclusion that, the subjecting the country to the process described, under the Act, to procure bullion for an enlarged circulation, really is essential for the constant preservation of the currency in a sound state; and that in no other way can the public maintain an effectual check against the depreciation that might otherwise be caused by a multiplicity of bubble speculations. It does not seem possible that the managers of any bank, even one so admirably conducted as the Bank of England, should know at once whether the advances that may at any time

be demanded from them, are for mere bubble speculations, or for such a *bonâ fide* permanent extension of commerce as would justify any increase of the notes unrepresented by bullion. A real augmentation of *sound* trade, in other words, an increased production of *commodities saleable in the markets of the world*, will, of itself, draw an additional quantity of bullion into the country, without subjecting it to any inconvenient pressure. Its capability of bringing gold into the country, is the only test by which its soundness can be proved. The real effect of the Act of 1844 in these circumstances is, that the first increase of exports is paid for in bullion instead of commodities, but that no extension of paper circulation is allowed on the credit of such articles as *will not draw gold into the country*, or, in other words, *have no exchangeable value in the markets of the world.* Thus it is that the currency is prevented from being unduly efflated by bubble speculations."*

This somewhat lengthy extract is given in full, from the concluding part of our friend's pamphlet, as containing the pith of the whole. This may serve as a specimen of the sort of reasoning used by the advocates of the Act in its support;

* "The Currency Question, and The Bank Charter Committees." By an M.P. Page 54.

and this is one of the best specimens, being from a First Class Man of his day at Cambridge.

Now, the meaning of all this is, that nothing can justify any increase of the notes unrepresented by bullion, unless for a bonâ fide extension of commerce; and that the Bank of England,—admirably conducted as it is,—cannot possibly know beforehand whether the advances, that may at any time be demanded from it, are for mere bubble speculations, or for such a bonâ fide permanent extension of commerce, as would justify any increase of the notes unrepresented by bullion; therefore, any increase of such notes is inexpedient and unjustifiable.

Everything that is inexpedient is unjustifiable, and everything that is unjustifiable is inexpedient. But, in this case, the inexpediency is not in the increase of such notes, but in the use of them "for mere bubble speculations," and as the use which will be made of such notes cannot be foreknown, *therefore*, to issue any such notes is inexpedient and unjustifiable.

To follow out this curious reasoning, let this strange conclusion be for a moment assumed. The question of balance between the good and the evil still remains to be determined. If the balance turn in favor of the good, that is just the amount of the loss. And this seems to be the question

with everything in this world. There is nothing in this world which may not be used for evil; *therefore*, every good thing in this world must be rejected, and we must be content to put up with the evil only.

In this case, of course, it is assumed that the balance would be in favor of the evil, and against the good.

But that is the whole question, and that is too much to assume on mere assertion, without proof, for none has been attempted. Nor is this a question open to proof. When a man has got a bottle of brandy before him, it is admitted that, if he drink off the whole at once he will be *dead drunk*. But it is too much to assume that he will drink off the whole at once, or even enough to make him drunk. He may take only just enough to do him good. Now, it seems hard on those who would take only just enough to do them good, to tell them that they shall have none, because there are some who would take enough to make themselves *dead drunk*. If the *majority* were likely to do so, there might be some show of reason for prohibiting the use of brandy altogether. But, at least, that should be first shown to be likely.

But what is the loss to the country from "bubble speculations," in comparison with the loss from "money-panics"?

Let those who will assume the "bubble speculation" theory, or the "over trading" theory,—let them assume it to any extent they please, and what do they gain by the assumption?

If the money be expended in the country, what is the loss to the country, but the loss of the profit on a successful speculation?

The loss is just *that* and no other.

If the money be sent out of the country, the loss may be *that*, and the whole capital. Nothing more.

But if the money be expended in the country or out of the country on a successful speculation, resting partly on the sound foundation of capital and partly on the credit of good bills, and if that credit cannot be redeemed by discounting those bills, for want of the bank-notes, the speculation then becomes unsuccessful; the trader thereby becomes a bankrupt, and others, whose credit was dependent on his, and who, like him, were engaged in equally good speculations, thereby also become bankrupts, and they in like manner make others bankrupts, and so bankruptcy spreads over the country from one end to the other, as in 1847 and 1857, and at many other times;—then the loss to the country is not only on those successful speculations so made unsuccessful, but the trade of the country, inland and foreign, is

sensibly diminished, if not, as it often is, for a time suspended, and the whole property of the kingdom is reduced in value. The loss to the country is then in millions.

This is not reasoning from theory, but from experience, and these are the facts.

The Member for Westmeath, and all those who support the present Bank Act, must meet these facts with something more than theories resting on their own unsupported opinions.

The truth must be told, and the truth is that, the Capitalists and the Bank of England are very well satisfied with things as they are. They desire no change, and they will allow no change to be made, if they can help it. They look to their own profit only, and are utterly regardless on whom the loss falls, if not on them. The Bank of England will take upon itself no loss at all. It will not even provide itself with the gold necessary for carrying on its own business. The loss which itself should bear it throws wholly upon the community.

Instead of selling its stock and curtailing its business, it makes the mercantile community sell *their* goods and curtail *their* business. Instead of buying gold at the fair market-price, it lowers the market-price of bills, and then buys them at the depreciated price, *i.e.* below their fair value.

It throws upon the community the cost of replenishing its stock of gold, and makes this losing transaction to the community a source of additional profit to itself. By charging very high rates of discount, it not only causes gold to be brought into the country at the expense of the mercantile community, in purchases of their artificially depreciated goods, for the benefit of the capitalists, but, by the same process, makes an addition to its ordinary profits, by wringing an extra profit out of the traders in the form of discounts.

So, the Bank of England, though it works under and keeps strictly within the Act of 1844, does not carry out the principle of the Act. The Bank of England does not take upon itself, as it was intended and expected to do, the cost of its own business, but shifts the cost on to the shoulders of the community, and besides shirking the loss, makes an actual profit in addition.

Such being the facts of the case, it is not surprising that the Bank Directors are unanimously in favor of the Bank Act of 1844. It shields them from personal responsibility, and yet leaves them wide limits for the exercise of their arbitrary discretion. It makes no regulations as to the rate of discount, but it directs a contraction of the currency under certain circumstances, and that direction they disregard by pursuing a

directly opposite course, thereby doubling the charge to the community, and the profit to the Bank.

It enables them to charge 8 per cent. when formerly, under the same circumstances they used to charge only 4 per cent. They say, —'The Bank Act of 1844 compels us to keep on hand this large stock of gold for the protection of the commercial community, and, therefore, the commercial community must pay for it.' And so they answer all complaints by an appeal to the Bank Act. In this they are quite right, but they are not the party to appeal to for the reform of the Bank Act.*

The Bank Directors are excellent witnesses for facts on the trial of the Bank Act when the criminal charges are brought against it; but they are not exactly the right persons to sit in judgment on the trial, or to pronounce the verdict of guilty or not guilty. That question can be properly answered only by the People, and on that question the people may very properly be the Judges and the Jury.

The real question in this case is one of *credit*, and commerce can no more go on without credit than banking can.

But in times of crisis commerce is the first

* "Economy of Capital," page 305.

to suffer, and the pressure upon the Bank of England is rapidly communicated to all the other banks.

If, at the commencement of such times, the Bank of England were in a situation to afford the required relief, confidence and credit might remain unshaken, and then the amount of relief required would be comparatively small.

All experience has shown how very small is the relief required if rendered in due time, and how disastrous are the consequences when the want of that relief begets distrust and loss of credit. Then, any amount of gold, if uncoined, would not avert the disastrous consequences.

With the power of free action in the Bank of England, the possession of a strong reserve of notes and real capital to command the gold, distrust and loss of credit never could arise.

It is not more gold that the Bank of England is in need of, but more notes and real capital. These will bring more credit, and by credit only can capital be economised. A large stock of gold now lies useless in the Bank vaults, withdrawn from all banking purposes, and useless for all other purposes. As already shown, this is a loss of seven millions of specie to the Banking Department, and, instead of constituting the strength of the Bank, is its weakness.

This is the fatal error of the Bank Charter Act of 1844. How easily this Act may be amended and made available for all the desired objects, as far as these can be attained by human means, has also been here shown, or, at least, attempted to be shown.

But, as long as human folly finds place in this world, no human arrangements can be so made as to keep out all evil consequences,—these being, fortunately for mankind, always and inevitably in some proportion to the folly.

It is not pretended that the changes here proposed will prevent or relieve any of the consequences of human folly, and more, it is not desired. The most that is proposed is, to prevent, as far as possible,—and, at best, that cannot be very far,—the rash and reckless gamblers from involving in their ruin the prudent and industrious traders; and to reduce, as far as possible, the risks of legitimate commerce, by the establishment of a National Bank, which shall be open and accessible at all times to the legitimate traders on known and easy terms, and be a safe and sure resource for them in their time of need from unforeseen and extraordinary circumstances, on terms known to them beforehand, and on which, therefore, they may safely calculate. That rash and dishonest speculators will often intrude and

force their way in to the detriment of the honest traders is equally certain. But that is an unavoidable evil, and all human arrangements being subject to unavoidable evils, that cannot be brought forward as a special objection in this case. The whole question depends on the turn of the balance to good or evil, and if the good preponderate the question is answered.

It may be true that, there is "an innate principle of humanity, which prompts men to ascribe to any but the true cause misfortunes arising either from their own improvidence or from the unavoidable vicissitudes of their calling."

It may be,—as the Member for Westmeath says it is,*—'this accounts for more than the due share of abuse which the Bank Act of 1844 has come in for.'

But whether that be so or not, it is by no means pretended that the proposed reform of that Act will prevent misfortunes arising from improvidence, or from the unavoidable vicissitudes to which traders are subject.

Sydney Smith, speaking of the Reform Bill, said:—"All young ladies will imagine, as soon as the Bill is carried, they will instantly be married; school-boys think that gerunds and supines

* "The Currency Question, And The Bank Charter Committees." By An M.P., page 61.

will instantly be abolished, and that currant tarts must instantly come down in price; 'the corporal and sergeant are sure of double-pay. . . . Fools will be disappointed, as they always are."

All here laid claim to is that, a case is shown for inquiry into the whole question of the Bank Charter Act of 1844, by a Select Committee of the House of Commons; or, better still, by a Royal Commission; with full powers for making such inquiry sufficient and satisfactory for the country.

## CHAPTER XII.

### SUMMARY: CONCLUSION.

From the foregoing Chapters may be deduced the following principles for the Organisation Of Credit In England:

That money, the great instrument of commerce, though it make a part, and a very valuable part, of the capital, makes no part of the revenue; and though the money distribute the revenue, the money makes no part of that revenue.

That, whatsoever part of the national property goes to provide the medium of, or substitution for, exchange, is wholly inoperative with regard to production. Nothing produces but the immediate instruments of production; the tools or machinery with which the workman labors, and the raw material which he fabricates. If, therefore, the whole of that portion of the national property, so employed, could be taken from that employment and converted into food, tools, and the materials of production, the productive powers

of the country would receive a corresponding increase.

That, it is the total quantity of the money in any country, which determines what portion of that quantity shall exchange for a certain portion of the goods or commodities of that country.

That, the portion of the annual produce which is not exchanged at all, as what is consumed by the producer; or which is not exchanged for money; is, with respect to the money, as if such portion of the annual produce had never existed.

That, a vast accession is, therefore, made to the means of production, by providing a substitute for the precious metals, as a medium of, or substitute for, exchange.

That, paper is far more convenient, as a medium of, or substitute for, exchange, than the precious metals. A large sum, in gold or silver, is a cumbrous commodity. In transferring property of considerable value, the very counting of gold and silver is a tedious operation. By means of a bank-note, the largest sum is as quickly paid as the smallest.

That, the inconveniences to which paper money is liable are only consequent on defective arrangements.

That, these inconveniences may be comprehended under three heads:

1.—The failure of the parties, by whom the notes are issued, to fulfil their engagements.

2.—Forgery.

3.—The alteration of the value of the currency.

That, the effects of an increase of the quantity, and consequent diminution of the value of the currency, are two :—

1. A rise of prices, or an increase in the quantity of money which is given in exchange.

2. A loss to all those persons who had a right to receive a certain sum of money of the old and undiminished value.

That, an alteration in the value of money, it is obvious, alters the relative value of nothing else. All things rise in value as compared with money; but not one of them rises in value as compared with another.

That, difference in price is, in itself, of no consequence to anybody. The man who has goods to sell gets more money for them; but this money will purchase just the same quantity of commodities as he was enabled to purchase with the price he obtained before. The man who has goods to purchase has more money to give for them, but he is enabled to do so, by getting just as much more for the commodities he has to sell.

That, the effect of a degradation in the value of money is obviously a loss to creditors and a gain to debtors. It is equally obvious that this effect is reversed, when the alteration which has taken place is an increase in the value of money.

That, these losses are evils of great magnitude to the individuals concerned, and imply a gross violation of the rules of justice; but here is no destruction, and consequently no loss, of property.* But every act of injustice is injurious, and all the consequences of altering the value of money, whether by raising or depressing it, are injurious.

That, fluctuations in the value of money are temporary alterations of the value, and are, therefore, extremely injurious, producing effects of the grossest injustice.

That, paper money, properly regulated, would be less liable to fluctuations in value than a currency wholly metallic.

That, when the whole responsibility of paying the notes in gold is borne by the people, any interference on the part of the Government, to prevent the issue of notes to meet the requirements of the people, is an act of the grossest impolicy and injustice.

* "Elements of Political Economy," by James Mill, page 125.

That, the Government, which persists in such interference in the light of the present day, after twenty years' experience of the injurious consequences to the country, declares its own incompetency or dishonesty, and, in either case, forfeits the confidence of the country by an act of gross injustice to the whole people.

That, the progress of mankind coincides with the rapid creation of capital. Therefore, the paramount interest of all is to favor the rapid creation of capital, and capital increases of its own accord under the triple influence of activity, frugality, and security.

That, capital, when formed, necessarily leaves disposable both labor and the remuneration of that labor. It carries in itself a power of progression. The *vires acquirit eundo* may be applied with rigorous exactitude to capital and its beneficial influence. In proportion as its action is extended, it sets free and renders disposable a certain amount of human efforts, only by setting free and rendering disposable a corresponding fund of remuneration, so that these two elements meet and compensate one another.

That, every increase of capital is followed by a necessary increase of general prosperity. Therefore, in proportion to the increase of capital, the *absolute* share of the total product falling to the

capitalist is augmented, and his *relative* share is diminished; while, on the contrary, the laborer's share is increased both absolutely and relatively.*

That, the *relative* share of the product falling to the capitalist goes on continually diminishing, only amounts to saying that, *the more abundant capital becomes, the more interest falls.*

That, the *absolute* share falling to the capitalist goes on continually increasing, only amounts to saying that, a man has a larger income with £10,000 at 4 per cent., than with £5,000 at 5 per cent., although, in the first case, he charges less for the use of his capital. The same holds of a nation, and of the world at large. The *per centage*, in its tendency to fall, neither does nor can follow a progression so rapid that the *sum total* of interest should be smaller when capital is abundant than when it is scarce.

That, all capital is divided into fixed and circulating capital.

That, every saving in the fixed capital, such as machinery, instruments of trade, etc., which does not diminish the productive powers of labor, is an improvement of the net revenue; so every saving in that part of the circulating capital which consists in money, is an improvement of the same kind.

* Bastiat, "Harmonies of Political Economy," page 183.

That, the circulating capital furnishes the materials and wages of labor, and puts industry into motion. Therefore, every saving in the expense of maintaining the fixed capital, which does not diminish the productive powers of labor, must increase the fund which puts industry into motion, and, consequently, the annual produce of land and labor, the real revenue of every society.

That, the substitution of paper money for gold money, replaces a very expensive instrument of commerce with one much less costly, and within certain limits, under certain regulations, equally convenient.

That, within proper limits and regulations, the paper money has the same currency as the gold money, from the confidence that the gold money can at any time be had for the paper money.

That, the Bank of England issues, of its own paper notes, say, to the amount of £20,000,000. As those notes serve all the purposes of money, the holders pay the same for them as if so much money. What they pay is the gain of the Bank. Though some of these notes are continually coming back to the Bank for payment, part of them continue to circulate for months and years together. Though the Bank has generally in circulation notes to the amount of £20,000,000, an amount in gold of two or three millions may, generally,

be a sufficient provision for meeting occasional demands for gold, as money. By this operation, therefore, two or three millions in gold perform all the functions which twenty millions could otherwise have performed. The same exchanges may be made, the same quantity of consumable goods may be circulated and distributed to their proper customers, by means of these paper notes, to the value of £20,000,000, as by an equal value of gold money. Eighteen millions of gold, therefore, can in this manner, be spared from the circulating capital of the country.

That, if the annual produce of the land and the labor of the country require only £20,000,000 to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking, the eighteen millions saved will be over and above what can be employed in the circulation of the country. But, though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will, therefore, be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad; because, at a distance from the Bank which issued it, and from the country in which payment of it in gold can be exacted by law, it will not be received in common payments. Gold,

therefore, to the amount of £18,000,000, will be sent abroad, and the channel of home circulation will remain filled with £20,000,000 of paper money, instead of £20,000,000 of gold money, which filled it before.

That, the quantity of gold thus sent abroad will be exchanged for foreign goods of some kind or another, in order to supply the consumption either of some other foreign country, or of our own, or for a higher rate of interest than can be obtained in our own. If employed in purchasing goods in one foreign country, in order to supply the consumption of another, or in what is called the carrying trade, whatever profit is made will be an addition to the net revenue of our own country. It is like a new fund, created for carrying on a new trade; domestic business being now transacted by paper, and the gold, thus saved, being converted into a fund for this new trade. If employed in purchasing from foreign countries, for home use, an additional stock of materials, tools and provisions, in order to maintain and employ an additional number of industrious people, who re-produce, with a profit, the value of their annual consumption, it promotes industry; and though it increase the consumption of the society, it provides a permanent fund for supporting that consumption, the people who

consume re-producing, with a profit, the whole value of their annual consumption. The gross revenue of the society, the annual produce of their land and labor, is increased by the whole value which the labor of those workmen adds to the materials upon which they are employed; and the net revenue by what remains of this value, after deducting what is necessary for supporting the tools and instruments of their trade.

That, the greater part of the gold forced abroad by those operations of banking, must be employed in purchasing foreign goods for home consumption; and another part in the less profitable employment of foreign loans, or other foreign investments.

That, gold and silver are nothing more than commodities, which are the most generally bought and sold, whether by individuals or nations.

That, those commodities alone can be exported, which are cheaper in the country from which they go, than in the country to which they are sent; and those commodities alone can be imported, which are dearer in the country to which they come, than in the country from which they are sent.

That, if gold be cheaper in any one country, as in England for example, it will be exported from England. If dearer in England than in

any other country, it will be imported into England.

That, in any country where gold is cheap, other commodities are dear.

That, gold is cheap, when a greater quantity of it is required to purchase commodities; and commodities are dear for the same reason; *i.e.* when a greater quantity of gold is required to purchase them.

That, when the value of gold, in England, is low, gold will be exported from England, on the principle that all commodities which are free to seek a market, go from the place where they are cheap, to the place where they are dear.

That, the fact that gold is cheap, implies the inseparable fact that, other commodities, at the same time, are dear.

That, therefore, when gold is exported, less of other commodities can be exported; and no commodities can be exported if the price of gold be so low as to raise the price of all of them above the price in other countries. A diminished quantity alone can be exported, if the price of gold be only reduced so far as to raise the price of some of them above the price in other countries.

That, a country, therefore, will export commodities other than the precious metals, only when the price of the precious metals is high; and

will import only when the price of the precious metals is low.

That, price, with reference to the precious metals, means the quantity or value of other things for which the precious metals will exchange.

That, price, with reference to money, means the same.

That, the only difference between gold money and paper money is that, the former is of intrinsic value, and the latter is of no intrinsic value, but wholly dependent on credit.

That, if the credit be universally acknowledged as unexceptionable, paper money, being less liable to change in value than other things, will exchange more readily than other things for gold.

That, when one nation exchanges a part of its commodities for a part of the commodities of another nation, the nation can gain nothing by parting with its commodities; all the gain must consist in what it receives.

That, a nation which parts with its commodities for gold and silver, derives no gain, but the contrary, from possessing more than its due proportion of the precious metals.

That, gold and silver may be profitable commodities to export, but must always be the least profitable to import.

That, for every nation, the most profitable com-

modities to export must always be the products of its own industry.

That, therefore, the most profitable application of that part of the nation's annual produce which is destined for industry, must be in providing at all times the provisions and materials necessary for maintaining and enlarging that annual produce.

That, for this purpose, it is for the best interests of every nation to provide cheap money for the convenient transfer of the circulating capital.

That, for this purpose, the cheapest and most convenient money is paper money, representing an equal amount of gold, and convertible into gold on demand.

That, for this purpose, no gold will be required, unless for the convenience of change, if it be known that gold, equal to the amount of notes, will be forthcoming when required.

That, for this purpose, it must be known that, under ordinary circumstances, paper money, to any amount required, may be had at a price not exceeding the *maximum* price fixed.

That, at the present time, the *maximum* price should be fixed at 4 per cent.; and if the rate of interest on the National Debt should be reduced to 2 per cent., then the *maximum* price should be fixed at 3 per cent.

That, in computing the quantity of industry

which the circulating capital of any society can employ, regard must always be had to those parts of it only, which consist in provisions, materials, and finished work; the other part, which consists in money and serves only to circulate those three, must always be deducted. In order to put industry in motion, three things are requisite; materials to work upon, tools to work with, and the wages or recompense for the work done. Money is neither a material to work upon, nor a tool to work with; and though the wages of the workman be commonly paid to him in money, his real revenue, like that of all other men, consists, not in the money, but in the money's worth, or what can be got for it.

That, the quantity of industry which any capital can employ, must, evidently, be equal to the number of workmen whom it can supply with materials, tools, and a maintenance suitable to the nature of the work. Money may be requisite for purchasing the materials and tools of the work, as well as the maintenance of the workman. But the quantity of industry which the whole capital can employ, is certainly not equal both to the money which purchases, and to the materials, tools, and maintenance, which are purchased with it; but only to one or other of those two values, and to the latter more properly than to the former.

That, it is impossible to determine the proportion which the circulating money of any country bears to the whole value of the annual produce circulated by means of it. But how small soever the proportion which the circulating money may bear to the whole value of the annual produce, as but a part, and generally but a small part, of that produce, is ever destined for the maintenance of industry, it must always bear a very considerable proportion to that part. When, therefore, by the substitution of paper, the gold necessary for circulation is reduced to a fifth part of the former quantity, if the value of only the greater part of the other four-fifths be added to the funds which are destined for the maintenance of industry, it must make a very considerable addition to the quantity of that industry, and, consequently, to the value of the annual produce of land and labor.

That, if, instead of such addition, the funds which are destined for the maintenance of industry be diminished, by the withdrawal of the greater part of the other four-fifths of the gold necessary for circulation, and at the same time by the withdrawal of a like amount of paper-money, substituted for the gold money, it must very considerably diminish the quantity of that industry, and, consequently, must very greatly

reduce the value of the annual produce of land and labor.

That, as it is impossible to determine the proportion which the circulating money bears to the whole value of the annual produce circulated by means of it, so it is impossible to determine the proportion of loss to the country from such a diminution of the funds destined for the maintenance of industry, and from the consequently reduced value of the annual produce of the land and labor of the country.

That, it is manifest, if only a small part of that produce be ever destined for the maintenance of industry, the value of the annual produce of the whole of the land and labor of the country so reduced, must be a loss to the country much greater than the whole of the small part of that produce destined for the maintenance of industry.

That, if such be an inevitable consequence, or, if such be the liability necessarily involved, it is self-evident that, the substitution of paper for gold, for the purpose of economising the gold, is no gain, but a great loss to the country.

That, the only way to secure the gain to the country, under such circumstances is, to prevent the diminution of the funds destined for the maintenance of industry, and thereby to main-

tain the value of the annual produce of the land and labor of the country, by increasing the amount of the paper circulation in proportion to the diminished amount of the gold circulation.

That, the whole paper money of every kind which can easily circulate, or continue long in circulation, in any country can never exceed the value of the gold, of which the paper, or other substitute, supplies the place, or of the gold which would circulate there, if there were no paper money, or other substitute. Should the circulating paper exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the Bank to be exchanged for gold. When this superfluous paper was converted into gold, the owners could easily make use of it by sending it abroad; but they could make no use of it while it remained in the shape of paper. There would immediately be a run upon the Bank to the whole extent of this superfluous paper, and if the Bank showed any difficulty or backwardness in payment, that would increase the run and create a panic.

That, over and above the expenses which are common to every branch of trade, such as house rent, wages, &c., the expenses peculiar to a Bank consist chiefly in two articles: Firstly, in the ex-

pense of keeping at all times in its coffers, a sum of money sufficient for answering the ordinary demands of the holders of its notes: Secondly, in the expense of replenishing those coffers as fast as they are emptied by answering such occasional demands.

That, when the Bank discounts a real bill of exchange, or a bill which, as soon as it becomes due, is really paid, the Bank only advances a part of the value which the debtor would otherwise be obliged to keep by him unemployed and in ready money for answering occasional demands. The payment of the bill, when it becomes due, replaces to the Bank the value of what it had advanced, together with the interest. The coffers of the Bank, so far as its dealings are confined to such customers, resemble a pond, from which, though a stream of water be continually running, yet another is continually running in, fully equal to or greater than that which runs out; so that, without any further care or attention, the pond keeps equally, or very near equally full. Little or no expense can ever be necessary for replenishing the coffers of such a Bank.

That, bills not real may be brought to the Bank for discount, and thus bank paper may be put into circulation, which may come to exceed

the whole quantity of gold which would have circulated in the country if there had been no paper money, supposing the commerce the same; and the excess of this paper money would immediately be returned upon the Bank, to be exchanged for gold.

That, such operations would be neither detrimental to the Bank nor to the country, if the Bank possessed the means for purchasing gold in the open market to meet these *extra-ordinary* demands, without curtailing the bank discounts; but such operations would cease to be profitable to the operators as soon as the equilibrium in the value of gold between this country and foreign countries was restored; and any loss to the Bank on such purchases would, in ordinary cases, be fully compensated by 4 per cent. on the additional bank-notes thus brought into circulation; nor would the loss to the Bank be considerable in *extra-ordinary* cases, under any circumstances which can be reasonably supposed. But any such loss, being consequent on the substitution of paper for gold, ought to be borne by the Bank.

That, it is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the

country. That part of his capital which a dealer is obliged to keep by him unemployed, and in ready money for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work upon, into tools to work with, and into provisions and subsistence to work for; into stock which produces something both to himself and to his country. The gold and silver money which circulates in any country, and by means of which the produce of its land and labor is annually circulated and distributed to the proper consumers, is, in the same manner as the ready money of the dealer, all dead stock. It is a very valuable part of the capital of the country, which produces nothing to the country. The judicious operations of banking, by substituting paper for a great part of this gold and silver, enable the country to convert a great part of this dead stock into active and productive stock; into stock which produces something to the country. The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself nothing

of either. The judicious operations of banking by providing a sort of roadway through the air, enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its land and labor.*

That, the circulation of every country is divided into two different branches; the circulation of the dealers with one another, and the circulation between the dealers and the consumers. Though the same pieces of money, whether paper or metal, may be employed sometimes in the one circulation and sometimes in the other; yet as both are constantly going on at the same time, each requires a certain stock of money of one kind or another, to carry it on. * The value of the goods circulated between the different dealers, never can exceed the value of those circulated between the dealers and the consumers; whatever is bought by the dealers, being ultimately destined to be sold to the consumers. The circulation between the dealers, as it is carried on by wholesale, requires generally a much larger sum for every particular transaction. That between the dealers and consumers, on the contrary, as it is generally carried on by retail, frequently requires but very small ones, a shilling, or even a penny being often

* "Wealth of Nations," vol. 1, page 484. 9th Ed.

sufficient. But small sums circulate much faster than large ones. A shilling changes hands more frequently than a sovereign, and a penny more frequently than a shilling. Though the annual purchases of all the consumers, therefore, are at least equal in value to those of all the dealers, they can generally be transacted with a much smaller quantity of money; the same pieces, by a more rapid circulation, serving as the instrument of many more purchases of the one kind than of the other.*

That, paper money may be so regulated, as either to confine itself very much to the circulation between the different dealers, or to extend itself likewise to a great part of that between the dealers and the consumers. When no bank-notes are circulated under five pounds value, paper money confines itself very much to the circulation between the dealers.

When a five-pound bank-note comes into the hands of a consumer, he is generally obliged to change it at the first shop where he has occasion to purchase five shillings worth of goods; so that it often returns into the hands of a dealer, before the consumer has spent the fortieth part of the money. Where bank notes are issued for so small sums as twenty shillings, as in Scotland,

* Ibid., vol. i., page 486.

paper money extends itself to a considerable part of the circulation between dealers and consumers. Before the Act of Parliament which put a stop to the circulation of ten and five shilling notes, it filled a still greater part of that circulation. It were, therefore, better that no bank-notes were issued in any part of the kingdom, for a smaller sum than five pounds; paper money would then confine itself, in every part of the kingdom, to the circulation between the different dealers. Where paper money is pretty much confined to the circulation between dealers and dealers, as in England, there is always plenty of gold and silver. Where paper money extends itself to a considerable part of the circulation between dealers and consumers, as in Scotland, it banishes gold and silver almost entirely from the country; almost all the ordinary transactions of its interior commerce being thus carried on by paper. Though paper money should be pretty much confined to the circulation between dealers and dealers, yet banks and bankers might still be able to give nearly the same assistance to the industry and commerce of the country, as they had done when paper money filled almost the whole circulation. The ready money which a dealer is obliged to keep by him, for answering occasional demands, is destined altogether for the circulation between

himself and other dealers, of whom he buys goods. He has no occasion to keep any by him for the circulation between himself and the consumers, who are his customers, and who bring ready money to him instead of taking any from him. Though no paper money, therefore, were allowed to be issued, but for such sums as would confine it pretty much to the circulation between dealers and dealers; yet, partly by discounting real bills of exchange, and partly by lending upon cash accounts, banks and bankers might still be able to relieve the greater part of those dealers from the necessity of keeping any considerable part of their stock by them, unemployed and in ready money, for answering occasional demands. They might still be able to give the utmost assistance which banks and bankers can, with propriety, give to traders of every kind.*

That, as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper which is added to it, paper money does not necessarily increase the quantity nor diminish the value of the whole currency, and does not necessarily augment the money price of commodities.†

That, a paper currency which falls below the value of gold and silver coin, does not thereby

*Ibid., vol. i., page 489. †Ibid., vol. i., page 490.

sink the value of those metals, or occasion equal quantities of them to exchange for a smaller quantity of goods of any other kind. The proportion between the value of gold and silver and that of goods of any other kind, depends in all cases not upon the nature or quantity of any particular paper money, which may be current in any particular country, but upon the richness or poverty of the mines, which happen at any particular time to supply the great market of the commercial world with those metals. It depends upon the proportion between the quantity of labor which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary in order to bring thither a certain quantity of any other sort of goods.

That, the same quantity of money cannot long remain in any country in which the value of the annual produce diminishes. The sole use of money is to circulate consumable goods. By means of it, provisions, materials, and finished works, are bought and sold, and distributed to their proper customers. The quantity of money, therefore, which can be annually employed in any country, must be determined by the value of the consumable goods annually circulated within it. These must consist either in the immediate produce of the land and labor of the country itself,

or in something which had been purchased with some part of that produce. Their value, therefore, must diminish as the value of that produce diminishes, and along with it the quantity of money which can be employed in circulating them. But the money which by this annual diminution of produce is annually thrown out of domestic calculation, will not be allowed to be idle. Whoever possesses it will, for his own sake, require that it should be employed. But having no employment at home, it will, in spite of all laws and prohibitions, be sent abroad, and employed in purchasing consumable goods which may be of some use at home; or it will be employed in purchasing gold and silver to be sent abroad as merchandise. This will for some time add something to the annual consumption of the country beyond the value of its own annual produce. But, in this case, of the annual diminution of produce, the exportation of gold and silver is not the cause, but the effect of the declension of national prosperity, and may even, for some little time, alleviate the misery of that declension.

That, the quantity of money, on the contrary, must in every country naturally increase as the value of the annual produce increases. The value of the consumable goods annually circu-

lated within the society being greater, will require a greater quantity of money to circulate them. A part of the increased produce, therefore, will naturally be employed in purchasing, wherever it is to be had, the additional quantity of gold and silver necessary for circulating the remainder. The increase of those metals will, in this case, be the effect, not the cause, of the national prosperity. Gold and silver are purchased everywhere in the same manner. The food, clothing, and lodging, the revenue and maintenance of all those whose labor or stock is employed in bringing them from the mine to the market, is the price paid for them at the mine as well as in England.

The country, which has this price to pay, will never be long without the quantity of those metals which it has occasion for; and no country will ever long retain a quantity which it has no occasion for.*

That, the real wealth and revenue of every country consists in the value of the annual produce of its land and labor, and, therefore, whatever tends to increase that annual produce, tends to increase the national prosperity.

That, it is, therefore, of the first importance for the prosperity of every country that it should

* Ibid., vol. ii., page 18.

at all times be fully supplied with money to meet all the requirements of trade and industry. If the materials of manufacture be wanted, industry must stop. If provisions be wanted the people must starve. If gold and silver be wanted, these are more easily supplied than almost any other commodities, if there be wherewithal to purchase them. Partly owing to the easy transportation of gold and silver from the places where they abound to those where they are wanted, and partly to the steady supply,—of late years greatly increasing,—the price of these metals does not fluctuate continually like that of the greater part of other commodities, which are hindered by their bulk from shifting their situation, when the market happens to be either over or under-stocked with them. The price of those metals is not altogether exempted from variation, but the changes to which the price is liable are generally slow, gradual, and uniform. To make any sudden change in the price of gold and silver, so as to raise or lower at once, sensibly and remarkably, the money price of all other commodities, requires a greater revolution in commerce than has been occasioned by the discovery of the extensive gold and silver fields of Mexico, California, Australia, and New Zealand. A well regulated paper money will at all times supply

all the gold and silver that can be wanted in this country, not only without any difficulty or inconveniency, but, in some cases, with considerable advantages. Nothing, therefore, can be more unnecessary than the attention of Government to the preservation or increase of the quantity of money in any country; provided there be always a sufficiency of paper money to meet the requirements of the country, and a sufficiency of credit for the purchase of gold and silver, in the open market, when wanted.

That, currency, when let alone, is self regulating, and, therefore, laws cannot improve its arrangements, but may, and continually do, derange them.

That, limiting paper in circulation to an amount smaller than it would otherwise reach, inevitably necessitates a corresponding increase of coin; and as coin is locked up capital, on which the nation gets no interest, a needless increase of it is equivalent to an additional tax equal to the additional interest lost.

That, even under such restrictions, men must still depend mainly upon each others' good faith and enlightened self interest; seeing that only by requiring the banker to keep sufficient specie in his coffers to cash all the notes he has issued, can *complete* security be given to the holders of them;

and to require as much is to destroy the motive for issuing notes.

That, even now the greater part of our paper currency is wholly unguaranteed.

That, over the bills of exchange in circulation, which represent liabilities five times as great as are represented by notes, no control is exercised. For the honoring of these there exists no special security, and the multiplication of them is without any limit, save that natural one—the credit men find it safe to give each other.

That, this point is completely established by experience in Scotland.

That, therefore, when we find *à priori* reason for concluding that, the due balance between paper and coin will be spontaneously maintained —when we also find that so large a proportion of our paper circulation is self-regulated—that the restrictions in force, besides the useless sinking of capital, produce such disastrous consequences,—and further, that facts prove a self-regulated system to be both safer and cheaper, it may be fairly inferred that legislative interference is not only needless, but injurious.*

That, to restrict the issue of notes on credit to a certain amount, is only a precautionary measure, which further experience will, probably, show to be unnecessary.

* Herbert Spencer,—"Social Statics," page 399.

That, the limit beyond which it would not be safe to issue notes on credit must always depend upon circumstances, and that limit can be determined only by experience.

That, paper money may be safely issued to any required amount, if the convertibility of the notes into gold, on demand, be secured.

That, it is manifestly, for the security of the notes that there should be only one bank of issue.

That, to meet the requirements of trade and industry, the power over the issue of notes, for England and Wales, ought not to be less than £40,000,000, and for the United Kingdom, not less than £50,000,000.

That, notes to these amounts, payable in gold, on demand, may be safely issued by the Bank of England on the credit of the nation.

That, the amount of gold and silver coin, to be kept in the Bank of England, need not exceed the amount required to meet the ordinary demands.

That, the ordinary demands for gold and silver, as money, in this country, are only for foreign payments and the convenience of change.

That, the extraordinary demands for gold and silver are not as money, but as commodities, and are not for use in this country, but for export.

That, the demands for gold and silver for ex-

port cannot affect the notes issued on credit, if the amount so issued do not exceed £50,000,000.

That, the issue of notes exceeding £40,000,000 for England and Wales, or £50,000,000 for the United Kingdom, ought to be against gold and silver, without regard to proportion.

That, gold and silver will always be purchaseable in the open market, at the market price.

That, the Bank of England may always obtain gold and silver by purchase, and may always reduce the amount of notes in circulation by sale of Government Securities, without raising the bank rate of discount.

That, increasing the amount of bank-notes in circulation, and purchasing gold in the open market, will be a more effectual and less injurious means for checking the export of gold, than curtailing the amount of bank-notes in circulation, by raising the bank rate of discount.

That, by increasing the amount of notes in circulation when gold is being exported, the distress occasioned by the demand for money in this country will be mitigated in extent, and shortened in duration.

That, the true policy of the Bank of England is to increase the issue of notes when the gold is being withdrawn, instead of attempting to stop the gold by curtailing the notes.

That, restricting the issue of notes, when gold is being withdrawn, produces a run for notes, which ends in panic.

That, discounting freely at 4 per cent. will stop the run for notes and prevent the panic.

That, as long as the balance of trade is in favor of this country, the supply of capital will be greater in this country than in any other.

That, the evidence of this fact is in the tendency of the rate of interest in this country to fall.

That, the supply of loanable capital always increases or diminishes in proportion to the demand.

That, the surplus or unemployed capital only leaves the country.

That, the Bank of England ought always to operate to counteract the rise of the rate of interest in this country, instead of co-operating with the other Banks to raise the rate of interest.

That, the effect of such counteracting influence would be to preserve a lower and steadier rate of interest in this country, by confining the fund for the supply of foreign demands to the surplus or unemployed capital.

That, the employment of capital in this country at a low rate of interest, must always be more

beneficial to this country than the employment of capital at a high rate of interest in a foreign country.

That, the employment of capital in this country at a high rate of interest must tend to turn the balance of trade in favor of foreign countries.

That, as long as the balance of trade is in favor of this country, the rate of interest must always be lower in this country than in foreign countries.

That, it is, therefore, of the utmost importance for the prosperity of the trade and industry of this country, that its credit should not be liable to serious disturbance through the monetary operations of foreign countries.

That, if the foundation of credit be firm, every measure, which tends to enlarge credit, tends to increase capital.

That, enlarging the credit-capital of the country on a safe basis is the gain of so much new capital without the cost of production.

That, the capital so gained ought to be held and employed, as far as possible, for the benefit of the country.

That, for this purpose, legislative control may be properly exercised, to a certain extent, over a National Bank, properly constituted, without interfering with freedom of trade, or private rights,

if exercised for the general trade and industry of the country.

That, the saving, so effected, is as much a saving to the country, as would be the saving of land, if roads and railways were made in the air.

That, locking up in gold the saving so effected, and depositing the gold where it cannot be used, is like prohibiting the use of the land saved by making roads and railways in the air.

That, the precious metals are marketable commodities, and, therefore, the more credit is enlarged on a safe basis, the greater is the saving of the precious metals, and the nearer is this, in effect, to the saving of land by making roads and railways in the air.

That, silver, in its market price, bears a sufficiently near proportion to that of gold to make silver a commodity always exchangeable for gold.

That, for money, silver is more extensively used than gold throughout the world, and the balance between gold and silver may be one day restored.

That, silver ought, therefore, to be used to an unlimited extent, for assisting to secure the convertibility of the bank-note into gold.

That, gold, as the most precious of the pre-

cious metals, obtainable in sufficient quantity, is the most suitable for the standard of value; but that, silver, as the next most precious of the precious metals, obtainable in sufficient quantity, is the most convenient of all commodities for exchanging for gold.

That, silver is, therefore, as useful as gold, in proportion to its intrinsic value, compared with gold.

That, it is, therefore, inconsistent with the principle on which the bank-note is issued, as the representative of gold, to limit the proportion of silver to be used for securing the convertibility of the bank-note into gold on demand.

That, the bank-note, as representing the gold coin of the realm, is as much the money of the country as is the gold coin represented.

That, the supply of Capital and the demand for it, determines the rate of interest.

That, the supply does not create, but does affect, the demand.

That, an over-supply of bank-notes, as money, for the transfer of capital, can never be kept in circulation.

That, the bank-notes ought to be brought up to meet the requirements of trade, not the requirements of trade brought down to meet the notes.

That, bank-notes being the principal money of the country, an insufficient supply tends to bring down the requirements of trade and to destroy credit, to the great loss and injury of the trade and industry of the country.

That, "over issues" and "over trading" are fanciful and absurd theories, when applied to a paper currency, payable in gold on demand.

That, the requirements of trade cannot be determined by the success or non-success of the trading operations, but only by the fact of the requirements, and the success or non-success is immaterial to the question, though not to the result.

That, bank-notes being payable in gold on demand, the issue of notes beyond the requirements of the country tends to the outflow of gold.

That, withdrawing bank-notes from circulation tends to stop the drain of gold, by making its export unprofitable; but tends also to stop credit, by raising the rate of discount.

That, the power of issuing notes and withdrawing them from circulation to any required amount is, practically, a power over the currency, which must *directly* affect the credit of the country, and *indirectly* the rate of interest in the country.

That, the power of contracting and enlarging the circulation of its notes to any required amount will be effectually and safely conferred upon the Bank of England, by placing it in possession of its own independent capital and enlarging its credit-capital for England and Wales to £40,000,000, or for the United Kingdom to £50,000,000, provided the Bank be restricted from discounting at a higher rate than 4 per cent.

That, the effect of these measures will be, to lower and steady the rate of discount in this country, by enabling the Bank of England to enlarge the issue of bank-notes when too contracted, and to contract the issue when in excess; thus lowering the rate of discount, when it is rising from the want of notes, by increasing the amount of notes in circulation; and raising the rate of discount, when it is rising from the want of gold, by reducing the amount of notes in circulation; but confining the increase in the rate of discount to the *maximum* of 4 per cent.; and, at the same time, if necessary, purchasing gold in the open market to the required amount.

That, these operations and the means of effecting them will be perfectly consistent with the natural law and the freedom of trade, the protection given being not to trade but to traders, and not to one class exclusively, but to all classes

equally; not for any class interests but for the benefit of the trade and industry of the country at large, against the monopoly of the capitalists acting in combination for their own benefit only.

That, the Bank of England, as now constituted, is too weak to provide an effectual remedy in these emergencies, without aggravating the inconvenient and, to many, ruinous consequences.

That, the Bank of England now uses its exclusive privilege in the issue of its notes to the injury of the trade and industry of the country, under the useless pretence of keeping a reserve of gold coin and bullion for the benefit of the country.

That, the country thereby loses the whole benefit of economising gold by the use of paper, for the sole benefit of the Bank of England, if the Bank derive any benefit therefrom, which is doubtful.

That, the measures which the Bank of England now takes for increasing its banking reserve, by curtailing its discounts, might be avoided, if the Bank had the power to enlarge its issue of notes, by extending its discounts.

That, the Bank of England, in possession of its own proper capital, might be safely entrusted with this power, as the Bank of England would then, by its own independent means, possess the

power of operating on the open market of gold, and of regulating the issue of notes according to the requirements of the country, without resorting to a high rate of discount and deranging the money market.

That, the rate of interest or discount is independent of the abundance or scarcity of money, and is by no means the price of money; the price of money being dependent on the cost of production of gold and silver and their relative quantity in the market with other commodities, and gold and silver being capable of being represented only by an equivalent value in merchandise of any kind.

That, the Bank of England, properly constituted, would not be under the necessity, as it now is, of raising the rate of interest or discount for maintaining its reserve of notes or gold.

That, the *maximum* rate of discount for the Bank of England ought not to exceed 4 per cent., and that this benefit to the public would be only a proper compensation for the privilege conferred on the Bank of England of issuing £40,000,000 of notes without interest.

That, the Bank of England has completely lost sight of its mission; and considers this privilege as if conferred upon it for its own private benefit, without regard to the interests of the country.

That, the Bank of England thus realises, or is supposed to realise, a profit for its own benefit, but very inadequately meets the requirements of the country.

That, it is impossible to meet these requirements, and to prevent the money-panics which are periodically reproduced, without the complete reorganisation of the Bank of England, and restoring to it its own independent capital, in harmony with new institutions and the altered circumstances of the times.

Such are the principles, such is the situation.

For this situation there is no other remedy than to reconstitute the Bank of England with a large independent capital and the power to issue a much larger amount of bank-notes.

In this way only can the Bank of England meet the requirements, by organising credit on a broad and substantial basis, and lowering the ordinary rate of interest for money in this country.

The resources of the country would thus be kept constantly utilised, and the Banks of Discount and other Financial Associations would derive great advantages from this organisation, and from fixing the *maximum* rate of discount for the Bank of England at 4 per cent.

The Bank of England would be placed in a more commanding position, and, with less re-

sponsibility, would be less exposed to censure and invidious remarks.

It would then be more clearly seen that, a low and steady rate of interest for money is essential for the encouragement of trade and industry; and that for this, the supply of money, as a means for the transfer of capital, must be at all times equal to the requirements.

The belief that the rate of interest is dependent on the abundance or scarcity of money, was the gross error on which was founded the system of John Law, upwards of 150 years ago; but, after all the fatal experience, that error is still prevalent.

The abundance of real or specie money is the effect of a multiplicity of transactions and the increase of real capital.

The abundance of credit or paper-money is the effect of a multiplicity of transactions and the increase of credit.

But credit-money cannot be increased beyond a certain limit, nor be made to produce all the effects of real money.

Inconvertible paper money always depreciates in direct proportion to its quantity, admitting even that public confidence is not entirely wanting. If issues of this nature exceed the requirements in the proportion of the double, the depre-

ciation will be one half, but the rate of interest will not vary.

Through all this reasoning are derived the following short results.

That, the power of the Bank of England must be greatly augmented to enable it to meet, at all times and under all circumstances the requirements of the country:

That, a certain relative proportion must be maintained between the Bank reserve and the issue of notes:

That, the *maximum* rate of interest or discount, for the Bank of England, must be fixed, subject to periodical revision:

That, on these principles only can the Bank of England be established for the Organisation of Credit in England.

Speaking generally, human conduct, which is subject to the Divine commands, must inevitably be guided by *rules*, or by *principles* or *maxims*. These *principles* or *maxims* are nothing more than the inferences suggested by repeated experience and observation, and are the handy abridgments of numerous and intricate considerations, reduced to rules for the guidance of human conduct in human affairs.

This is the main use of *theory*, which ignorant and weak people are in a habit of *opposing* to

practice, but which is essential to practice guided by experience and observation.

They say it is true in *theory;* but, then, it is false in practice.

But, *that* which is true in *theory* is *also* true in practice.

A true theory is a *compendium* of particular truths, and must necessarily be true as applied to particular cases. The terms of the theory are general and abstract, or the particular truths which the theory implies would not be abbreviated or condensed. But, unless it be true of particulars, and, therefore, true in practice, it has no *truth* at all. *Truth* is always particular, though language is commonly general. Unless the terms of a theory can be resolved into particular truths, the theory is mere nonsense.

Therefore, they who talk of a thing being true in *theory* but not in *practice,* mean (if they mean anything) that the theory in question is false: that the particular truths which it concerns are treated imperfectly or incorrectly; and that, if it were applied in practice, it might, therefore, mislead. They *say* that truth in theory is not truth in practice. They *mean* that a false theory is not a true one, and might lead to practical errors.*

For none of that class of persons has this book

* Austin "On Jurisprudence," page 44.

been written; but only for those who think distinctly, and speak with a meaning.

If, after due examination, they find the theory here propounded to be true, they will know that it must fit perfectly in practice; and further that, the Bank Charter Act of 1844 is an infliction, from which this country ought to be relieved.

THE END.

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